

Audit Committee

Monday, 30th September,
2024
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Council Chamber - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor M Bunday
Councillor Chapman
Councillor Every
Councillor Leggett (Chair)
Councillor Powell-Vaughan

Contacts

Director of Legal and Governance
Richard Ivory
Tel. 023 8083 2794
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Democratic Support Officer
Maria McKay
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PUBLIC INFORMATION

Role of the Audit Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

[02 Part 2 - Articles](#)

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Public Representations At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton: Corporate Plan 2022-2030 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones:- Please switch your mobile telephones or other IT devices to silent whilst in the meeting

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Dates of Meetings: Municipal Year:

2024	2025
29 July	27 January
30 September	3 February
11 November	7 April
23 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Audit Committee are contained in Part 3 of the Council's Constitution.

[03 - Part 3 - Responsibility for Functions](#)

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

- (i) Any employment, office, trade, profession or vocation carried on for profit or gain.
- (ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

- a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
- b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

1 **APOLOGIES**

To receive any apologies.

2 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 **STATEMENT FROM THE CHAIR**

4 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)** (Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 29 July 2024 and to deal with any matters arising, attached.

5 **STATEMENT OF ACCOUNTS 2022/23 (RICHARD WILLIAMS)** (Pages 3 - 148)

Report of the Executive Director Enabling Services & S151 Officer detailing the changes made to the Statement of Accounts 2022/23, and Annual Governance Statement included within, since the draft version presented to the Governance Committee in July 2023, for consideration and approval, and to resolve that the Executive Director Enabling Services can make changes to the above upon consultation at this committee.

6 **EXTERNAL AUDIT PROGRESS UPDATE (EY KEVIN SUTER)** (Pages 149 - 158)

Report of the External Auditor Ernst & Young detailing 2023/24 audit progress.

Friday, 20 September, 2024

Director Legal and Governance

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AUDIT COMMITTEE
MINUTES OF THE MEETING HELD ON 29 JULY 2024

Present: Councillors M Bunday, Evemy and Leggett (Chair)

Apologies: Councillors Chapman and Powell-Vaughan

1. **APPOINTMENT OF VICE-CHAIR**

RESOLVED: that Councillor Chapman be appointed as Vice-Chair for the remainder of the Municipal Year 2024/25.

2. **DRAFT ANNUAL GOVERNANCE STATEMENT 2023-24**

The Committee received and noted the report of the Executive Director of Enabling Services detailing the Draft Annual Governance Statement 2023/24. The Accounts and Audit Regulations required the Council to develop and publish an Annual Governance Statement ('AGS'). The purpose of the AGS, which was published with the Statement of Accounts ('SoA'), was to provide an accurate representation of the corporate governance arrangements in place during the year and to identify any areas where there were significant gaps or where improvements were required.

The Committee particularly noted the status of the agreed actions from the draft 2022/23 AGS as detailed in Appendix 3 of the report and the draft AGS 2023/24 as detailed in Appendix 1 of the report. It was noted that the AGS would also be presented to Governance Committee in due course as part of the Committee's remit.

3. **DRAFT STATEMENT OF ACCOUNTS 2023/24**

The Committee considered the report of the Executive Director of Enabling Services detailing the Draft Statement of Accounts 2023/24 which had been signed by the Executive Director of Enabling Services and S151 Officer on 28th May 2024 in line with the statutory requirement for the unaudited accounts to be published by 31st May 2024.

The Committee noted that there would be a detailed training session for Members of the Committee on the accounts before them returning to Committee in September for final sign off. It was noted that there had been an objection to the accounts received relating to lack of progress with Direct Payments which the External Auditors were mindful to accept pending further information being sought by 23rd August when a final opinion on the objection would be made.

RESOLVED:

- (i) that the draft statement of accounts 2023/24 had been signed by the S151 Officer be noted; and
- (ii) that the audited statement of accounts 2023/24 was expected to be presented to Committee on 30 September 2024 for approval be noted.

4. **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2023/24**

The Committee received and noted the report of the Executive Director of Enabling Services detailing the Review of Prudential Limits and Treasury Management Outturn 2023/24. The report informed the Committee of the treasury management performance for 2023/24 against the approved Prudential Indicators for external Debt and Treasury Management. The Committee also noted the continued proactive approach to Treasury Management had led to reductions in borrowing costs and safeguarded investment income during the year.

The Committee noted that there would be a further report in Quarter 2 of the year reviewing Prudential Indicators following the authority receiving the Exceptional Financial Support.

5. **ANNUAL INTERNAL AUDIT OPINION 2023-24**

The Committee received and noted the report of the Chief Financial Auditor detailing the Annual Internal Audit Opinion 2023/24. The report also provided an update on the internal audit work carried out since the last reporting period. The Committee also noted the introduction of an audit tracker which would also be submitted to future meetings of the Committee to support progress reports.

The Committee particularly noted the following points:

- Page 98 – Appointeeship – follow up work had moved the assurance to limited however further improvements were still needed.
- Page 99 – Childcare Payments – a potential issue had been highlighted regarding controls not being enacted, which saw work commence quickly taking the audit from no assurance to limited assurance.
- Page 108 – there had been two investigations, one of which wasn't a control failing an external company had dissolved causing the issues, the second investigation had identified a number of lessons to be learned which would be shared in due course.

Agenda Item 5

DECISION-MAKER:		AUDIT COMMITTEE	
SUBJECT:		STATEMENT OF ACCOUNTS 2022/23	
DATE OF DECISION:		30 SEPTEMBER 2024	
REPORT OF:		EXECUTIVE DIRECTOR ENABLING SERVICES & S151 OFFICER	
<u>CONTACT DETAILS</u>			
Executive Director	Title:	Executive Director Enabling Services & S151 Officer	
	Name:	Mel Creighton	Tel: 023 80833528
	E-mail:	Mel.Creighton@southampton.gov.uk	
Author:	Title:	MTFS & Revenue Manager	
	Name:	Stephanie Skivington	Tel: 023 80832692
	E-mail:	Stephanie.Skivington@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
<p>The draft statement of accounts for 2022/23 was presented to the Governance Committee at its meeting on 24 July 2023. At that time the audit of the statement was expected to be completed later in 2023. However, due to the complex set of factors contributing to audit delays across the sector, an audit of the 2022/23 statements has not been completed, other than work relating to the external auditor’s value for money opinion. To address the national backlog of local audits the Government is imposing (subject to secondary legislation) a backstop date of 13 December 2024 for publication of accounts for financial years up to and including 2022/23. The Committee is required to consider and approve the accounts before they are published.</p>	
<p>This report details the changes made to the 2022/23 statement of accounts arising from an audit adjustment identified during the audit of the 2023/24 accounts that also impacts on previous years. The going concern disclosure has also been updated to reflect management’s conclusion of a material uncertainty in respect of the council’s ability to continue as a going concern, in recognition of the council’s continuing challenging financial circumstances. The annual governance statement has also been brought up to date. A copy of the updated statement of accounts is available in the Members’ Room.</p>	
RECOMMENDATIONS:	
	(i) Notes the changes made to the Statement of Accounts 2022/23, and Annual Governance Statement included within, since the draft version presented to the Governance Committee in July 2023.
	(ii) Considers and approves the updated Statement of Accounts 2022/23 and Annual Governance Statement included within it.

	(iii)	Resolves that the Executive Director Enabling Services & S151 Officer, after consultation with the Chair of this Committee, can make any further changes to the Statement of Accounts 2022/23 and Annual Governance Statement that may arise during the completion of external audit procedures prior to publication.
	(iv)	Note the template letter of representation provided by external audit is attached at Appendix 2.
REASONS FOR REPORT RECOMMENDATIONS		
1.		It is a legal requirement that the statement of accounts 2022/23 is considered and approved by this committee and signed by the person presiding at this meeting prior to publication.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
2.		The statement of accounts has been prepared in accordance with statutory requirements. No other options have been considered as it is a legal requirement that the statement of accounts is approved by the committee and signed by the person presiding at this meeting.
DETAIL (Including consultation carried out)		
		CONSULTATION
3.		Not applicable.
		STATEMENT OF ACCOUNTS
4.		The statement of accounts is a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of the Committee were presented to the Governance Committee at its meeting on 24 July 2023. A copy of this is available in the Members' Room or by following the link below. Draft Statement of Accounts 2022/23
		STATEMENT OF ACCOUNTS AMENDMENTS
5.		The external auditors (Ernst & Young LLP) have identified during the audit of the 2023/24 statement of accounts the requirement for the in-year depreciation of council dwellings to be written out at year end to reflect that the indexation of valuations is a revaluation as at 31 March. As the 2022/23 accounts are still 'open' this requires restatement of 2022/23 opening balances and amendments to 2022/23 disclosures. There is no change to the net book value of council dwellings reported as part of property, plant & equipment in the balance sheet, or on revaluation gains recognised in the comprehensive income and expenditure statement. The changes to disclosures are summarised in Appendix 1.
6.		The general principles for the preparation of the accounts are set out in Note 1 (page 33) to the statement of accounts. This includes that the accounts are prepared on a going concern basis. The council is relying on Exceptional Financial Support (EFS) to balance its revenue budget for 2024/25. EFS is for one year only and a transformation programme is underway to help close the forecast budget shortfall in 2025/26 and future years. At this stage it is too early to know whether this and other measures being taken will be sufficient to close the budget gap. In view of this, management has concluded that there

	is a material uncertainty in respect of the council's ability to continue as a going concern and Note 1 has been updated in this respect.
7.	The Code requires that the Annual Governance Statement relates to the governance system as it applied during the financial year for the accounts that it accompanies. However, significant events or developments relating the governance system that occur between the reporting date and the date on which the statement of accounts is authorised for issue shall also be reported. The 2022/23 annual governance statement contained within the statement of accounts document has therefore been updated in this respect.
	STATUTORY TIMETABLE
8.	The Accounts and Audit Regulations (as amended) set out the deadline for publishing local authority accounts. The 2022 amendment regulations extended the deadline for the publication of final accounts from 31 July to 30 September for each year of account for 2022/23 to 2027/28. The current regulations allow for these dates being missed.
9.	To address the national backlog of local audits and put local audit on a sustainable footing the Government is imposing backstop dates for publication of final accounts. The backstop date for financial years up to and including 2022/23 is 13 December 2024. Progressively earlier backstop dates will apply for financial years 2023/24 to 2027/28, with a backstop of 28 February 2025 for 2023/24 accounts and 30 November 2028 for 2027/28 accounts. These changes will require secondary legislation when parliamentary time allows. The changes will require auditors to issue an opinion by the backstop date, which will be a 'disclaimed' opinion if the audit has not been completed.
10.	The Committee is being asked to consider and approve the updated 2022/23 statement of accounts at this meeting to allow EY sufficient time to complete their audit procedures and issue an opinion by the backstop date.
	LETTER OF REPRESENTATION
11.	As part of its procedures in forming an opinion on the statement of accounts, the external auditors require representations from the council's management on specific matters. The template letter provided by EY for this is attached at Appendix 2.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
12.	Not applicable
<u>Property/Other</u>	
13.	Note applicable
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
14.	Accounts and Audit Regulations 2015 (as amended).
<u>Other Legal Implications:</u>	
15.	None
RISK MANAGEMENT IMPLICATIONS	

16.	Auditors will be expected to give clear reasons for 'disclaimed' opinions to mitigate the possible reputational risk for local authorities and ensure they are not unfairly judged as a result of the backstop dates.
POLICY FRAMEWORK IMPLICATIONS	
17.	Not applicable. It should be note that the statement of accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2022/23.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Amendments to 2022-23 Statement of Accounts
2.	Template letter of representation

Documents In Members' Rooms

1.	Updated Statement of Accounts 2022/23
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Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes/No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	Yes/No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

Note 12 Movement in Property, Plant & Equipment – Council Dwellings

2022/23	Original £000	Revised £000
Cost or Valuation		
At 1 April 2022	773,194	773,194
Adjustment to previous year charges	0	(19,153)
	773,194	754,041
Additions	32,804	32,804
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(31,649)	(32,804)
Derecognition - Disposals	(4,820)	(4,820)
Other Reclassifications	4,343	4,343
At 31 March 2023	778,872	753,564
Accumulated Depreciation and Impairment		
At 1 April 2022	(19,153)	(19,153)
Adjustment to previous year charges		19,153
	(19,153)	0
Depreciation in year	(20,308)	(20,308)
Written out to the Surplus/Deficit on the Provision of Services	19,153	20,308
At 31 March 2023	(20,308)	0
Net Book Value at 31 March 2023	753,564	753,564

HRA Note 3 Depreciation and Impairment of Assets

2022/23	Original £000	Revised £000
Balance at 1 April	20,005	852
Depreciation written off in year	(19,621)	(20,776)
Depreciation during year	20,763	20,763
Balance as at 31 March	21,147	839

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[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided connection with your audit of the [consolidated and parent] Authority financial statements of [name of entity] ("the [Group and] authority") for the year ended [balance sheet date]. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent Authority financial statements give a true and fair view of (or 'present fairly, in all material respects,') the [Group and] authority financial position of [name of entity] as of [balance sheet date] and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the [Group and] the Authority, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our [consolidated and parent] Authority financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist. Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the [Group and the parent] Authority, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the [Group and] authority, our responsibility for the fair presentation of the consolidated and parent Authority financial statements. We believe the [consolidated and parent] Authority financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the [Group and parent] Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (as amended by the Update to the Code and Specifications for Future Codes for

Letter of representations: Audit of Group and Local Authority financial statements

Infrastructure Assets (November 2022), and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the [Group and] authority financial statements are appropriately described in the [Group and] authority financial statements.
4. As members of management of the [Group and] authority, we believe that the [Group and] authority have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [*applicable financial reporting framework*] for the Group and [*applicable financial reporting framework*] for the Authority that are free from material misstatement, whether due to fraud or error.
5. [*When there are unadjusted audit differences in the current year*] We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and parent Authority financial statements taken as a whole. We have not corrected these differences because [*specify reasons for not correcting misstatement*].
6. [*When the comparative figures have been restated*]
The comparative amounts have been restated to reflect the below matter(s) and appropriate note disclosure of this (these) restatement(s) has (have) also been included in the current year's consolidated and parent Authority financial statements.

[Add a paragraph providing a brief description of each matter giving rise to a restatement and the amount(s) concerned.]

There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and parent Authority financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and parent Authority financial statements for the year ended [*date*] are solely the result of reclassifications for comparative purposes.
7. We confirm the [Group and] authority does not have securities (debt or equity) listed on a recognized exchange.
8. We have confirmed to you any changes in service organizations within the [Group and] authority since the last audited financial year.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the [Group and] authority's business activities are conducted in accordance with laws and

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regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the [consolidated and parent] Authority financial statements may be materially misstated as a result of fraud.
4. *[When management is aware of the occurrence of non-compliance with laws or regulations, or has received allegations of non-compliance with laws and regulations.]* We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the [Group or] Authority (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), including non-compliance matters:
 - Involving financial improprieties
 - Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated and parent Authority financial statements
 - Related to laws and regulations that have an indirect effect on amounts and disclosures in the [consolidated and parent] Authority financial statements, but compliance with which may be fundamental to the operations of the [Group and] authority’s business, its ability to continue in business, or to avoid material penalties
 - Involving management, or employees who have significant roles in internal control, or others
 - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

[When management is not aware of the occurrence of non-compliance with laws or regulations, or has not received allegations of non-compliance with laws and regulations.] We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud, that may have affected the [Group or] Authority (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the [consolidated and parent] Authority financial statements

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- Related to laws or regulations that have an indirect effect on amounts and disclosures in the [consolidated and parent] Authority financial statements, but compliance with which may be fundamental to the operations of the [Group and] authority's business, its ability to continue in business, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the [consolidated and parent] Authority financial statements.
3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the [period] to the most recent meeting on the following date: [list date].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the [Group and] authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the [consolidated and parent] Authority financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with [applicable financial reporting framework].
6. We have disclosed to you, and the [Group and] authority has complied with, all aspects of contractual agreements that could have a material effect on the

Letter of representations: Audit of Group and Local Authority financial statements

[consolidated and parent] Authority financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the [consolidated and parent] Authority financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.
8. We have disclosed to you, and provided you full access to information and any internal investigations relating to, unauthorized access to our information technology systems that has a material effect on the [consolidated and parent] Authority financial statements, including disclosures.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the [consolidated and parent] Authority financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the consolidated and parent Authority financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note [X] to the consolidated and parent Authority financial statements discloses all the matters of which we are aware that are relevant to the Group and authority's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than the events described in Note [X] to the [consolidated and parent] Authority financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent Authority financial statements or notes thereto.

G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

Letter of representations: Audit of Group and Local Authority financial statements

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent Authority, subsidiary undertakings and associated undertakings.

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information contained within the Narrative Statement and also the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and the [Group and] authority have reflected these in the consolidated and parent financial statements.

Yours faithfully,

(Chief Financial Officer/Finance Director)

(Chairman of the Audit Committee)

Southampton City Council **STATEMENT OF ACCOUNTS**

2022/23





STATEMENT OF ACCOUNTS

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NARRATIVE STATEMENT

Message from the Executive Director Corporate Services and S151 Officer, Mel Creighton

The purpose of this publication is to present the statutory financial statements for Southampton City Council covering the period 1 April 2022 to 31 March 2023. The statements can be technical and complex, but where possible we have presented them as simply as we can, and I would recommend reading the narrative statement for an overview of the authority's financial position for the year and prospects for the medium term.

The February 2022 Council meeting agreed the Council's budget for 2022/23, as well as setting out Medium Term Financial Forecast estimates for the following financial years up to 2025/26.

Financial year 2022/23 has been very challenging for the City and the Council in many ways. The City has been emerging from the issues created by the COVID-19 pandemic, which started during 2020, with much increased demand for Council services arising. 2022 saw the cost of living crisis, with high inflation and households facing higher bills across the board but particularly in relation to energy. The Council has been needed to support our communities and residents during these difficult economic circumstances.

The Authority continued to support work around the recovery from the COVID-19 pandemic during 2022/23. For example, the Council administered the Government's schemes of financial support to local businesses impacted by COVID-19. £8.6M of business rates relief was distributed during 2022/23 to support 1,138 local businesses. The Council also helped support access to local transport by, for example, offering a reduced price for the bus operator's standard £8 group ticket to £5 for up to five people to encourage more travel by bus and to enable people to experience Southampton, particularly over the school summer holidays. Bus passenger numbers have suffered under COVID-19. Therefore, to ensure support of local transport services, given their key role in our community, a scheme to compensate bus operators beyond the actual usage for concessionary fares was also in operation over the year, as well as (for a time) a subsidised £1 evening bus travel fare.

Another important priority during 2022/23 has been to provide support for our residents during the cost of living crisis and in particular with the rising cost of energy bills. The Council distributed £14.2M to administer a scheme of support with energy costs, which helped around 94,700 residents. Libraries and family hubs were also made available as warm centres to welcome those residents who were concerned about the cost of heating their homes and needed a safe place to go during this challenging time.

The City has also played its part during 2022/23 in supporting refugees, including those sadly displaced by the war in Ukraine by helping to organise both short term support on arrival and suitable accommodation under the national Homes for Ukraine scheme.

The incoming new Administration, elected during May 2022, also chose to reopen St Mary's Leisure Centre from August 2022 (it had been closed from December 2021) and the Council will look at options for its viability over the longer term.

The impact of the national cost of living crisis and on energy costs was also evident on the Council's budget during the year. These included higher energy costs for the Authority, higher than expected national pay awards, rising interest rates and strong demand for Council services all of which combined to have a major impact on our spending and significantly weaken the Council's overall financial position. The financial information below shows a deficit of around £11.4M being incurred for the 2022/23 financial year, which has required a drawdown from the Council's reserves to finance this. This compares with a surplus reported the previous year (2021/22) of £10.9M. The nationally set pay award alone cost the Council £4M over and above the allocated budgetary provision made for 2022/23, whilst fuel and energy rises exceeded budget provision by around £2.8M.

A high demand for Council services was also evident during the year, with examples being:

NARRATIVE STATEMENT

- Home to School Transport – where the year-end spend was £4.1M above the budget.
- Client packages and placement costs across both Adults and Childrens Services, which cost around £9.8M over and above budget.

These budgetary pressures, and others, were evident at an early point during 2022/23 and highlighted as part of our in-year budget monitoring work. In response to the budget challenges faced, the Council introduced an “Essential Spend” only regime during summer 2022, where spending was limited to contractual obligation, a service failure or a legal requirement. Applying these justifications to our current spending remains an important control in the face of the financial pressures faced by the Council.

The financial strain the Council faced has also been apparent in the Housing Revenue Account (HRA), which is our ring-fenced account dealing with housing rents income and the costs associated with Council maintaining houses. Inflationary costs were largely responsible for reactive and cyclical repairs spending being £2.5M over budget, for instance, albeit underspends elsewhere meant the HRA stayed within its overall budget during 2022/23. The inflationary impact we have seen on HRA running costs, its planned capital works and on HRA borrowing rates will need to be carefully monitored going forward. The HRA must be self sufficient financially, applying long term thinking and financial stability will be key to balancing future investment required with financial viability.

Finance staff have been working to improve our core financial systems during the past year. Work continues with the financial management system (Business World) introduced in late 2019 to maximise its benefits including its reporting capability and ensure budget holders can readily access the financial information they need to manage budgets effectively. Improved training of budget holders is envisaged as crucial undertaking to ensure the full benefits of Business World are available and work started on this during 2022/23 and continues. Work has also been underway to ensure service continuity for on-line card payments to the Council. This was needed after the current service provider served notice to discontinue its provision to the Council. A new system was introduced for online payments during 2022/23 and this will be extended during 2023/24 to also cover over the phone transactions, which will ensure paying the Council by either online or telephone remains safe and as easy as possible.

Looking ahead into 2023/24 and beyond, the Council’s Medium Term Financial Strategy (MTFS) and budget report, which was agreed in February 2023, made it clear the Council will be operating in a very challenging financial environment both for the current year and over the medium term planning horizon. It is imperative that in the next budget we bring costs under control and a culture of staying within the approved budget is embedded and that plans set out how we will balance the budget in the medium term. The previous CFO discussed the weakened financial position of the Council due to the reliance on reserves to balance the position in the February budget report. In relation to the General Fund, the report stated that the reserves expected to be left were inadequate for the risks faced particularly around further demand and cost of living pressures, added to the risks of non-delivery of savings.

The Authority therefore faces a major financial challenge in 2023/24 that will also impact into future years. The plan must be to restore financial sustainability and a greater financial resilience. This is essential to support the Corporate Plan and future service planning, which can then be underpinned by greater certainty and ability to cope with and address financial risks. In response to this challenge, as the new Chief Financial Officer (in post from the end of February 2023), the management team and I have been reviewing the budget pressures and Council’s planned savings, in order to develop as quickly as possible a new financial strategy to address these pressures, deal with the expected future budget shortfall and also strengthen the reserves over the longer term, putting the Council on a sustainable financial footing. To help with this work, the advice from the Chartered Institute of Public Finance and Accountancy (CIPFA) has been sought. This work will be reported on later during 2023/24.

We know only so much can be done to meet the financial challenges faced by short term tactical measures around reducing budgets and restructuring services. The Council is therefore investing in a comprehensive approach to fundamentally transforming its services, both delivering improved outcomes and optimising efficiency. There will also be an emphasis on enhancing and developing cross cutting measures to address our budget pressures over the long term.

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These include reviewing our use of assets in the context of the post pandemic world, how we utilise our capital investment to help increase efficiency, how we work with partner organisations across the authority to achieve mutual goals, our systems and processes to ensure they are fit for purpose and how we can make best use of accommodation to improve services and lower costs.

The Council, like all other authorities, also has uncertainty of future levels of Government funding. Government did not formally pre-announce any future financial settlement from 2024/25 onwards, though there are indicative figures and broad principles. This uncertainty adds considerably to the challenge of planning the authority's finances over the medium term. Government's long anticipated Fair Funding review, which would look at Government's system of grant distribution to local councils, has been further delayed as have changes in the method of funding via the business rate retention scheme.

The reform of Adult Social Care, announced by Government in September 2021 in its paper "Build Back Better: our plans for health and social care" will also play a key part in our future finances. The proposals were originally meant to be enacted during 2023/24 but have now been delayed until October 2025 by Government. The proposals include a move towards paying a "fair cost of care" to care providers and capping care costs. Nationally, £5.4Bn was ring-fenced for social care but exactly how this funding will be distributed locally amongst councils and how it matches their future liabilities remains to be fully seen.

We will err on the side of prudence with planning the finances of the Council, and are mindful of the difficult economic conditions expected to apply nationally, with inflation remaining at nearly 9% at the time of writing and the Bank of England's base rate for borrowing having risen to 4.5% early in the new financial year.

I would like to express my sincere and genuine thanks for all staff in my Finance team during 2022/23 who have played their part in producing the Statement of Accounts and also for their wider efforts in supporting the Council with helping our residents during difficult times.

I have structured this narrative statement to help enable readers to understand the Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts.

It should be noted that all local authorities are required to publish an Annual Governance Statement including highlighting any significant changes. The Annual Governance Statement is included in Section 7 on page 121.

The Council reviews annually any interest in companies and other entities for any financial relationships which would require the Council to produce group accounts. In 2022/23 there were no material transactions that require this. Note 36 on page 103 provides further information.

The sections contained within the Narrative Statement are:

1. Key Facts about Southampton
2. Key Facts about Southampton City Council
3. A summary of the financial performance
4. An explanation of the statement of accounts
5. Accounting issues & developments

1. KEY FACTS ABOUT SOUTHAMPTON

Southampton has a unique sea city location with exceptional transport links, a strong position nationally for economic growth, an excellent reputation for teaching and learning, a strong business community, good regional specialist hospital, varied retail offer, night-time economy, vibrant voluntary and student communities and a rich and diverse cultural mix.

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There are a number of factors which affect the Council's services and its finances. Detailed below are some of the key facts and figures having a major impact on the Council's financial position in both the short and medium term:

Key Statistics

Population 263,768
(SAPF-2022 based
forecast)

Southampton covers
49.8km²

Ave house price
£254,557 (Jan 2023)

University of
Southampton ranked
13th in 2023 league
tables

Ranked 6th out of 51
for Good Growth
(2022)

Ave gross weekly (full
time) earnings £642
(£645 Eng. ave.) 2022
(resident)

7,060 (4.2%) working
age residents
claiming JSA or work-
related UC

102,290 households
(2021 Census)
48.7% owned
21.9% social rented
29.2% private rented

78.2% 16-64 yrs olds in
employment (Eng.
average 75.7%) Oct
2021-Sept 2022

880 planning
applications 2022/23
861 Minor and other
development decisions
19 Major development
decisions

7,890 business
enterprises 2022

37,800 higher
education students in
the city 2021/22

Sources: Southampton City Council, Department for Work and Pensions (DWP), Office for National Statistics, Hampshire County Council, Annual Population Survey, Land Registry, PWC, BRES and HESA

Council related statistics

- We maintain over 416 miles of highways and 55 parks and over 147 other green spaces and 75 eco areas "managed for wildlife" which cover over 95 hectares.
- 6 x Green Flag awards for 5 Central Parks (as a collective award), St James' Park, Portswood Rec, Riverside Park, Freemantle Lake Park (new for 2022) and Town Quay Park (new for 2022).
- We also maintain over 100 play areas, 24 multi use games areas, 6 skateparks and 7 tennis courts and a mini-golf course.
- We have 55,000 recorded Council trees (estimated 267,000 within total urban forest) and 290 hectares of woodland.
- The trees are worth £1.3 million each year in ecosystem services they provide to the city and would cost more than £3 billion to replace their benefits in other ways.
- 440,000+ visitors per year across 6 City Council 5 community partnership libraries.

NARRATIVE STATEMENT

- 723,000 items borrowed plus 70,000 loans of eBooks/audio.
- 285,000 uses of e-resources (55% of which are newspapers and magazines).
- 2,100 cultural community activities per year attended by 34,000 visitors.
- Over 130,000 queries answered from residents.
- We provide 15,834 council houses, as of 31 March 2023.
- We support 2,468 people (provisional) in long term care as of 31 March 2023.
- We work with and support 76 schools in the city.
- 2,815 under 5 children used the children centres in 2022 and they made 11,511 visits (total number of different days each individual attended) and engaged in 12,595 activities.
- We look after 561 children who are in our care (114 per 10,000 people). Department for Education 2022.
- 1,723 Commercial Waste Customers and 18,849 Garden Waste Customers.
- Empty around 127,500 bins from households every week.
- We recycle, compost and reuse 24,777 tonnes of waste in financial year 2021/22 full year.
- Service and maintain 500 vehicles and over 500 pieces of plant and equipment.
- City Telecare Services offers 24 hour help to more than 6,200 city residents and over 1,600 Portsmouth residents.
- We have about 3,245 supported housing properties which have the Community Alarm Monitoring property element.
- 2,074 supported properties for people aged over 60.
- We have 218 Extra Care properties in the city.
- 4,045 support plans delivered by Housing Support Workers supporting older vulnerable residents (April 2022 most recent figure).

Southampton City Council: Corporate Plan 2022/30

The Council's Corporate Plan updated in 2022 sets out our direction for the next eight years and shows how we will play our part in fulfilling Southampton's huge potential.

The plan commits to creating a place where people want to live, work, study, visit and enjoy. This will be achieved through continuing to work with partners across the city and using evidence and experience to make intelligent decisions. The plan outlines four goals and the things both the Council and others in the City are doing to achieve them. There is a strong recognition of the importance of the work of other organisations the council works with in delivering a city of opportunity. The four goals set out in the plan are:



The plan will be reviewed and updated at appropriate points and monitored through cabinet member briefings. It will be delivered through implementation plans through service business plans, strategies and where appropriate, specific project plans.

NARRATIVE STATEMENT

2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL

All of the factors in Section 1 help to shape the Council's priorities and provide a challenging environment for the Council to operate in. Potentially increasing demand on services and reducing the amount of income the Council can generate. Charged with directing the outcomes, priorities and policies of the Council are the 48 elected Councillors (now 51 as of May 2023 following electoral changes). The next section describes the political and management structure of the Council.

Political Structure

Southampton City Council is a unitary authority split into 16 wards each represented by 3 councillors. As a result of the elections held in May 2022, the political structure during most of 2022/23 was as follows:

- Labour 27
- Conservative 20
- Liberal Democrats 1

Council Executive Management Board

Supporting the work of the elected members is the Council's Executive Management Board (EMB). The makeup of the team at the end of 2022/23 is detailed below. Note 26 shows the further detail of people that have been in a strategic post during 2022/23.

Chief Executive – **Mike Harris**

Executive Director – Wellbeing (Children and Learning) – **Robert Henderson**

Executive Director – Place – **Adam Wilkinson (interim)**

Executive Director – Wellbeing & Housing – **Claire Edgar**

Executive Director – Corporate Services – **Mel Creighton (from end of February 2023)**

Director – Strategy & Performance – **Munira Holloway**

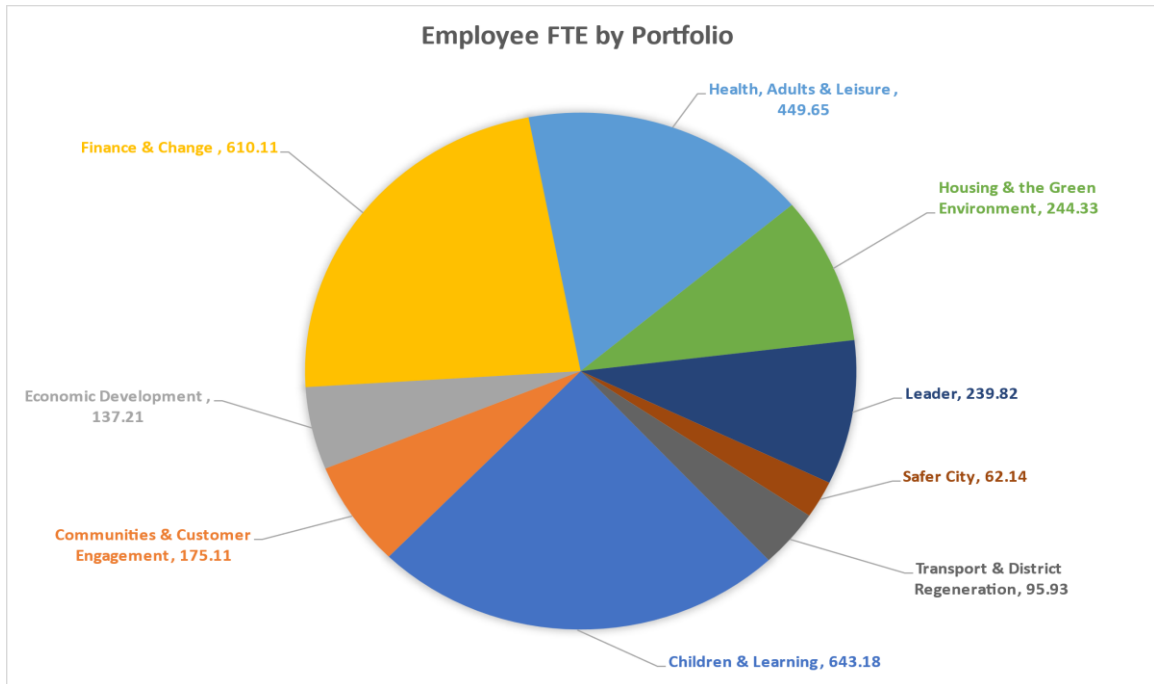
The team works together to set out the priorities and themes contained within the Southampton City Council Corporate Plan.

Staffing

The Council employs circa 2,657 Full Time Equivalents to deliver these priorities (excluding school and Housing Revenue Account employees).

The following chart shows how these support the different Council services:

NARRATIVE STATEMENT



For much of the year the Council continued with broadly the same approach as adopted during the pandemic whereby employees who could work from home largely did so, provided this was compatible with the needs of the Council and the delivery of services. This also helps with the efficient and effective use of council accommodation.

The Council's Performance

The measures used to monitor and report on the authority's agreed corporate plan are given below, showing the performance and when the most recent data was from, as well as the direction of travel.

Indicator	Direction of Travel	Baseline period	Southampton baseline	Latest data: Southampton	Latest data: England	Current Direction of Travel
Percentage of 16–17-year-olds not in education, employment or training (NEET)	▽	2021	7.60%	7.3% (2023)	5.2% (2023)	Improving
Percentage of economically active population with no or low qualifications (NVQ)	▽	2020	10.80%	11.9% (2021)	12.5% (2021)	Worsening
Percentage of pupils achieving a grade 5 or above in GCSE English and Maths	△	2021	41.80%	42.1% (2022 revised)	50% (2022 revised)	Improving
Employment rate percentage aged 16-64	△	2021	74.20%	76.1% (2022)	75.8% (2022)	Improving
Percentage of care leavers in suitable accommodation	△	Sep-22	94%	81% (Mar-23)	88% (Mar-23)	Worsening
Percentage of people with eligible needs supported to live independently	△	2020/2021	72%	72.8% (2021/22)	71% (2021/22)	Stable

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Indicator	Direction of Travel	Baseline period	Southampton baseline	Latest data: Southampton	Latest data: England	Current Direction of Travel
Percentage of care leavers 19-21 in Education, Employment or Training	△	Sep-22	57%	55% (Mar-23)	55% (Mar-23)	Worsening
Number of Looked After Children (per 10,000)	▽	Sep-22	107	109.29 (Mar-23)	70 (Mar-23)	Worsening
Healthy life expectancy in at birth (Male)	△	2018-20	61.4 years	NO UPDATE		
Healthy life expectancy at birth (Female)	△	2018-20	63.1 years	NO UPDATE		
Smoking levels in adults	▽	2019	16.80%	12.5% (2021)	13% (2021)	Improving
Alcohol specific mortality (all ages) per 100,000	▽	2017-19	17.3	19.4 (2021)	13.9 (2021)	Worsening
Percentage of children in Year R with excess weight	▽	2020/21	32.67%	22.4% (2021/22)	22.3% (2021/22)	Improving
Percentage of children in Year 6 with excess weight	▽	2020/21	41.01%	39.8% (2021/22)	37.8% (2021/22)	Improving
Percentage of people who are satisfied with their local area as a place to live?	△	2020	85%	NO UPDATE		
Percentage of physically active adults	△	2020/2021	64.80%	65.9% (2021/22)	67.3% (2021/22)	Improving
Number of reported fly tipping incidents (per 1,000 population)	▽	2021/2022	39.5	40.2 (2021/22)	19.3 (2021/22)	Worsening
Percentage of household waste sent for recycling	△	2021/2022	27.20%	NO UPDATE		
Percentage of business survival over two years	△	2020	71.50%	72.3% (to 2021)	74.5% (to 2021)	Improving
Increase in economic growth (Gross value added per head)	△	2020	£25,481	£27,371 (2021)	£31,138 (2021)	Improving
Percentage of customers who are very satisfied or fairly satisfied with the way the council runs things	△	2020	68%	NO UPDATE		
Percentage of residents who are very satisfied or fairly satisfied that the council provides value for money	△	2020	51%	NO UPDATE		
Number of days lost per employee to sickness absence (SCC vs Local Government overall)	▽	2021	7.82	9.26 days (Mar-23)	6.5 days (2021)	Worsening

NARRATIVE STATEMENT

3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The budget for the financial year 2022/23 was agreed at full council when it met on 23 February 2022 and a balanced budget was set, with a freeze in council tax, around £10.9M of new planned savings for the year and a use of the Medium Term Financial Risk Reserve to support the net budget of £193.05M. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting.

The Council incurs both revenue and capital expenditure. The revenue account (known as the General Fund or GF) bears the net cost of providing day to day services. The capital account shows the net cost of transactions made to buy or sell land, property or other assets, build new property, make improvements and provide grants or loans to other bodies to undertake this type of activity.

The table below shows the Council's outturn position and variances from the current budget.

General Fund Revenue Account: Outturn Position 2022/23	Budget 2022/23	Portfolio Outturn 2022/23	Outturn Variance 2022/23
	£M	£M	£M
Portfolios			
Children & Learning	59.96	75.54	15.57 A
Communities & Customer Engagement	6.22	7.07	0.86 A
Economic Development	2.72	2.77	0.06 A
Finance & Change	39.93	40.88	0.95 A
Health, Adults & Leisure	85.72	91.59	5.86 A
Housing & the Green Environment	7.90	8.02	0.12 A
Leader	13.15	12.98	(0.17) F
Safer City	1.47	1.30	(0.18) F
Transport & District Regeneration	0.97	(1.58)	(2.54) F
Sub total for Portfolios	218.04	238.58	20.54 A
Levies & Contributions	0.09	0.09	0.00 A
Capital Asset Management	11.33	7.37	(3.96) F
Net Housing Benefit Payments	0.00	0.52	0.52 A
Other Expenditure & Income	(36.17)	(39.36)	(3.19) F
Net Council Expenditure	193.29	207.19	13.90 A
Financed By:			
Council Tax	(111.24)	(111.24)	(0.00) F
Business Rates	(32.78)	(32.78)	(0.00) F
Non-Specific Government Grants & Other Funding	(49.27)	(51.79)	(2.52) F
Total Financing	(193.29)	(195.81)	(2.52) F
Transfer from Reserves - Year End Deficit		(11.38)	(11.38)
(Surplus)/Deficit	0.00	(0.00)	(0.00)

Numbers are rounded

The Council set its 2022/23 budget in February 2022 against a background of uncertainty around events internationally as well as the on-going effects of COVID-19 pandemic when considering the 2022/23 budget. The report to council gave warning around a number of risks, commenting that "Pay inflation remains a significant risk", and with "the rise in inflation adding to pressure for the 2022 pay settlement."

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Furthermore that a further risk was “price inflation and in particular energy costs with the trade body Energy UK warning gas and electricity bills could rise by up to 50%.” The gross budget pressures for 2022/23 were estimated at £14.8M at the time.

The total overspend at Portfolio level amounted to £20.5M in 2022/23 as per the table above. The most significant overspend related to the Children’s and Learning Portfolio (£15.57M adverse). This largely relates to a variety of pressures amongst which include the following:

- Home to school transport (£4.1M Adverse variance) - driven by the increased numbers of pupils with an Education, Health and Care Plan (EHCP) who are eligible for home to school transport and by an increase in the unit costs for transport;
- £1.9M Adverse variance within the Jigsaw Service with overspends on a number of ongoing high-cost placements. The service is also experiencing pressures with increased costs in direct payments due to a rise in the number of children requiring packages of care.
- £6.4M Adverse variance in Pathways through Care team. Placement numbers and costs are currently not reducing as anticipated when the budget was set, reducing instead at a slower pace. There are a range of reasons for this, including increased risk and need within families post COVID-19 and national placement shortages.
- £1.7M Adverse variance with regard to Safeguarding, with additional agency staffing expenditure being a factor via the numbers of temporary social workers to deal with increased workloads as well as to cover vacancies and also support newly qualified social workers as they develop their caseloads.

The Health, Adults and Leisure Portfolio shows a variance of around £5.9M adverse. There has been a post COVID-19 impact from an increased average cost of care, in particular the costs relating to the revised hospital discharge to assess process, where clients are discharged from hospital in line with the updated COVID response process, as well as increased expenditure for residential, nursing and direct payments.

There is a significant favourable variance for the following non-portfolio budgets:

- Capital Asset Management (CAM): Favourable variance of £3.96M, a reduction to capital financing costs following a review of the capital programme and its financing.
- Other Expenditure & Income: Favourable variance of £3.19M, reflecting mainly £4.14M of savings held centrally plus £0.29M unused contingency budget, less £1.32M of additional S31 business rates grant transferred to reserves and £0.08M net other favourable transactions.

The overall outturn for the Council was an adverse position of **£11.38M**, which needed to be funded via a drawdown from reserves, reducing the Council’s financial resilience.

Expenditure and Funding Analysis

It should be noted that an expenditure and funding analysis is included in the statutory accounts that helps to explain the difference between the way information is reported in year and the statutory reporting format required for the final accounts. This is called the Expenditure and Funding Analysis. This is detailed on page 26 and further in Note 8.

Expenditure is analysed below by category to explain further how the Council spends its resources.

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	Budget 2022/23 £M	Portfolio Outturn 2022/23 £M	Outturn Variance 2022/23 £M	
Salaries & Wages	141.26	145.40	4.14	A
Premises Costs	13.15	14.02	0.87	A
Transportation Costs	7.47	11.89	4.42	A
Supplies & Services	97.21	125.47	28.26	A
Internal Charges	17.93	21.96	4.03	A
Other Direct Costs	255.05	288.09	33.04	A
Total Expenditure	532.08	606.83	74.75	A
Internal Income	(43.34)	(45.25)	(1.92)	F
Fees, Charges & Rents	(54.60)	(56.98)	(2.37)	F
Grants / Contributions	(216.10)	(266.02)	(49.92)	F
Total Net Expenditure	218.04	238.58	20.54	A

Numbers are rounded

This analysis excludes HRA and Housing Benefit areas when compared to the EFA.

COLLECTION FUND

As the billing authority for Southampton, the City Council maintains a Collection Fund for the receipt and distribution of local taxes. The Council Tax element of the Collection Fund is credited with income from Council Tax payers and debited with the Council's call on the Fund plus the precepts of the Hampshire and Isle of Wight Police & Crime Commissioner and Hampshire and Isle of Wight Fire & Rescue Authority. The Fund is used to smooth the difference between the actual and budgeted amount of Council Tax collected each year. Any surplus or deficit on the Fund is normally reflected in the following year's Council Tax calculations, although by exception the 2020/21 in-year deficit is being spread over 3 years. The Business Rates element of the Collection Fund operates in a broadly similar way.

The Collection Fund as a whole has a surplus of £12.30M at 31 March 2023, being a surplus of £13.20M for Business Rates and a deficit of £0.90M for Council Tax. The surplus for Business Rates is primarily from a reduction in the amount held for estimated losses from appeals to rateable values, following closure of the appeals window for the 2017 list of rateable values.

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sale of Council houses and flats. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to or from the council tax payer. The HRA statements are included on pages 108 to 111.

NARRATIVE STATEMENT

HRA Outturn Position 2022/23

The table below shows the HRA outturn position.

A planned surplus of £0.92M was carried forward from 2021/22 into 2022/23.

Housing Revenue Account: Outturn Position 2022/23	Budget 2022/23	Outturn 2022/23	Outturn Variance 2022/23	
	£M	£M	£M	
<u>EXPENDITURE</u>				
Responsive Repairs	11.73	15.68	3.94	A
Housing Investment	7.36	5.91	(1.45)	F
Total Repairs	19.09	21.59	2.50	A
Rents Payable	0.10	0.44	0.34	A
Debt Management	0.08	0.08	(0.00)	F
Supervision & Management	26.59	26.21	(0.38)	F
Interest and Principal Repayments	5.15	5.12	(0.03)	F
Depreciation	23.76	20.76	(3.00)	F
Capital Financing	2.55	1.79	(0.76)	F
TOTAL EXPENDITURE	77.33	75.99	(1.34)	F
<u>INCOME</u>				
Dwelling Rents	(71.84)	(70.56)	1.28	A
Other Rents	(1.18)	(1.14)	0.04	A
Total Rental Income	(73.02)	(71.71)	1.31	A
Service Charge Income	(2.34)	(2.31)	0.02	A
Leaseholder Service Charges	(1.05)	(0.99)	0.06	A
Interest Received	0.00	(0.06)	(0.06)	F
TOTAL INCOME	(76.41)	(75.07)	1.34	A
(SURPLUS)/DEFICIT FOR YEAR	0.92	0.92	0.00	F
<u>BALANCES</u>				
Working Balance B/Fwd	2.92	2.92	0.00	
Surplus/(deficit) for year	(0.92)	(0.92)	(0.00)	
WORKING BALANCE C/FWD	2.00	2.00	(0.00)	

Numbers are rounded

DEDICATED SCHOOLS GRANT (DSG)

The DSG is a ring-fenced grant received from Government that must be used to fund the activities of the Council's schools. Primarily arising from a significant increase in demand pressure within services covered by the High Needs Block (HNB), the DSG has seen a significant increase in its deficit in recent years. At 31 March 2023 this deficit for Southampton City Council was £10.1M, compared with £11.1M the previous year-end. Normally, this deficit would need to be covered by the Council's reserves, but Government has

NARRATIVE STATEMENT

extended a statutory override of this requirement until after 2025/26, effectively meaning the DSG deficit is not required to be covered by the Council's reserves until after 1 April 2026.

An important driver of the deficit has been a lack of affordable Special School provision and rising demand within the city, which creates reliance on the more costly out of area provision to meet demand and parental preference. This leaves the budget under pressure and without more investment in the mainstream schools general SEN provision this could continue. To help resolve this situation, the Capital Programme contains a project totally £45.2M, for investment to create extra spaces locally in SEN school places. This will form a key part of the deficit recovery plan for the DSG. The deficit is an issue which effects many authorities nationally, and in recognition of that Government, via its Department for Education, has targeted DSG deficit authorities and provided support through its Delivering Better Value programme. This has included £1M of additional grant in support of returning the Council's DSG to a secure ongoing financial position and resolving the deficit.

CAPITAL

The capital programme budget for the year, including changes approved during the course of the year, was £136.9M in total for both the General Fund and HRA. Final capital spend for the year was £98.8M, this was £38.1M less than the budget, including slippage/re-phasing of £36.46M. This will be reflected in the post outturn update of the overall programme.

The table below shows the capital expenditure for the year against budget for each Portfolio:

Service	2022/23 Budget £M	2022/23 Expenditure £M	Variance £M
Children & Learning	18.79	12.78	6.01 F
Communities & Customer Engagement	0.72	0.19	0.53 F
Economic Development	1.86	1.11	0.76 F
Finance & Change	7.58	4.22	3.35 F
Health, Adults & Leisure	2.39	1.45	0.93 F
Housing & the Green Environment	10.51	6.53	3.98 F
Leader	2.17	0.78	1.39 F
Safer City	0.66	0.06	0.60 F
Transport & District Regeneration	53.95	35.81	18.14 F
Total General Fund Programme	98.63	62.94	35.69 F
Housing Revenue Account	38.25	35.88	2.38 F
Total Capital Programme	136.88	98.82	38.06 F

Numbers are rounded

The final spend for the year was £38.1M lower than the budget, with slippage now expected to be spent in 2023/24 predominantly on the following schemes:

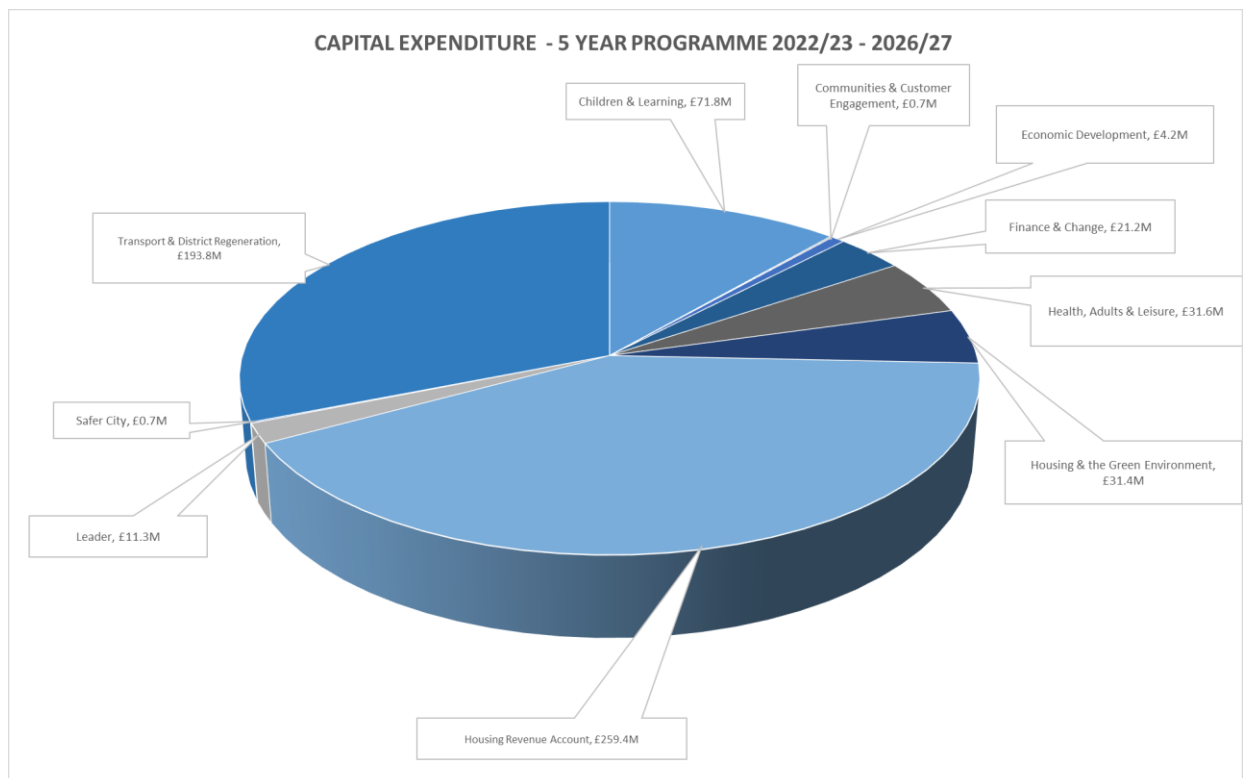
NARRATIVE STATEMENT

Integrated Transport	£17.27M
Highways	£0.78M
Corporate Assets Decarbonisation Scheme	£1.19M
Secondary Expansion	£3.57M
School Capital Maintenance	£0.87M
SEND Review	£1.26M
Sport & Recreation	£0.74M
HRA - Making Homes Safe	£0.11M
HRA - Supporting Communities	£1.12M
HRA - Regeneration & New Build	£0.69M
IT Investment	£0.70M
Parks & Open Spaces Investment	£1.22M

Numbers are rounded

5 Year Capital Programme

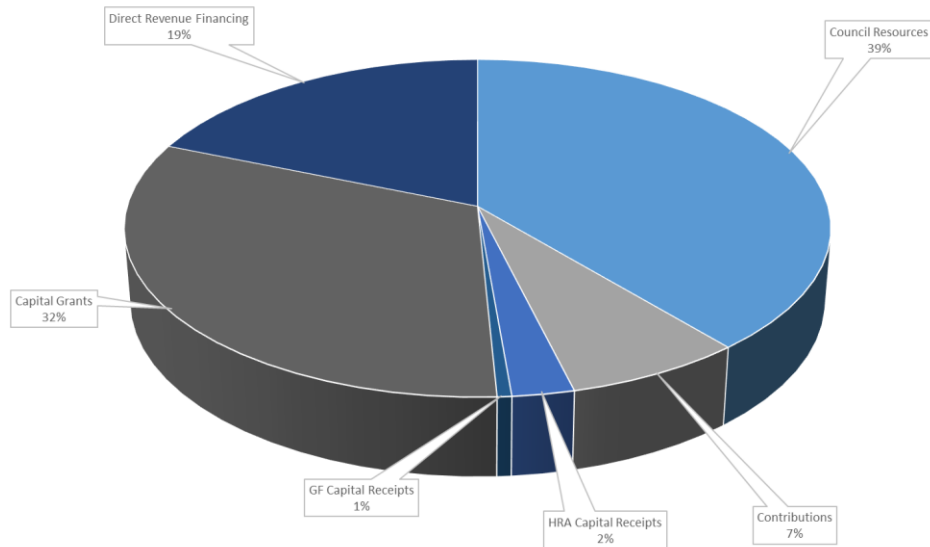
The current approved 5-year capital programme which totals £626.15M and its funding are shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends.



Funded by:

NARRATIVE STATEMENT

CAPITAL FUNDING - 5 YEAR PROGRAMME 2022/23 - 2026/27



TREASURY MANAGEMENT

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Executive Director Corporate Services to make decisions on the management of the Council's debt and investment of surplus funds.

The current strategy, as outlined in the Council's agreed strategy, is that as we have an increasing borrowing requirement our overall intention is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.

The Churches, Charities and Local Authorities (CCLA) property investment fund has generated returns of 3.87% against our original investment of £27M. The fund recovered well in 2021/22 and the estimated property value gained £4.6M in the year, following losses in both 2019/20 and 2020/21 and the fair value for 2021/22 was £30.89M against the original £27M investment an estimated gain of £3.89M, however this did not continue in 2022/23, the fund lost capital value of 16.49% (£5.1M) and the reported Fair Value at 31 March 2023 was £25.8M, a loss of £1.2M on the original investment.

Tighter financial conditions, higher bond yields and challenges in some segments of commercial real estate (e.g. offices post-COVID, high street shops and shopping centres) saw commercial property values fall during 2022, with a large fall in the final calendar quarter.

The Department for Levelling Up, Housing and Communities (DLUHC) published a consultation on the IFRS 9 statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

NARRATIVE STATEMENT

RESERVES AND BALANCES

The Council maintains a number of useable reserves, as detailed in the Balance Sheet.

We aim to identify, within the Medium Term Financial Strategy, the financial risks facing the Council in the medium term. This includes assessing the risk of reductions in central government funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the Council.

The graph below highlights the changes in the value of reserves between 31 March 2022 and 31 March 2023.

The Council's primary reserve for addressing both budget management and other financial risks is the Medium Term Financial Risk (MTFR) reserve, which had a balance of £28.35M as at 31 March 2023.

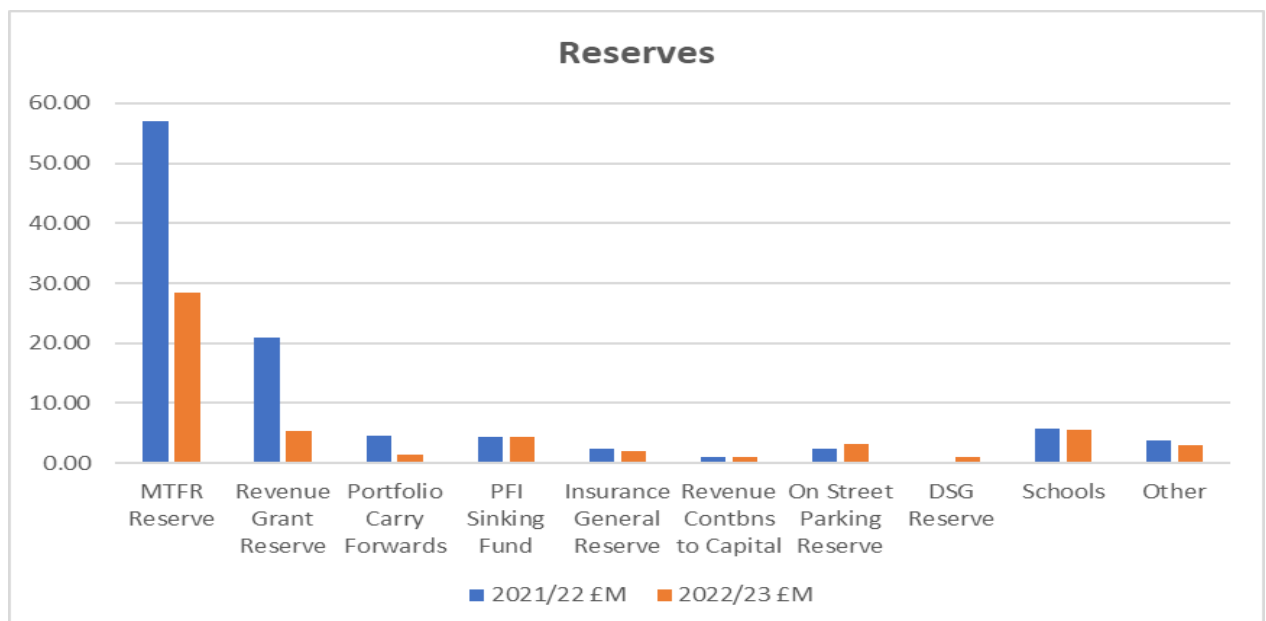
Reserves were reviewed as part of the financial strategy agreed by the Council at its meeting in February 2023. The February 2023 budget report to the full council highlighted that the authority had inadequate reserves for the financial risks it faced during 2023/24 and beyond. This was particularly the case given the high level of use of reserves applied simply to maintain a balanced budget for 2023/24, which indicates an unsustainable financial position. The agreed budget for 2023/24 relied on a drawdown of around £20.6M from reserves to achieve a balanced position.

A revised Financial Strategy to address this and the risks and budget pressures faced will need to be developed during 2023/24, which also begins to rebuild the council's resilience by improving the position with regard to the reserves.

The necessity for a robust level of reserves is reinforced by the financial pressures witnessed during the COVID-19 outbreak and also as a result of the cost of living crisis and its impact on the costs the Council faces.

Funding is also uncertain beyond 2023/24, as there is no agreed Government settlement from 1 April 2024, coupled with the fact that a significant share of the Council's funding is also reliant on local business rates which are hard to predict and also liable to vary according to national economic trends and the pattern of the business cycle. Volatile demand and costs, combined with the funding uncertainty, makes it important that the Council improves its financial resilience by rebuilding its capacity with reserves.

Reserves are also important as a source of funding in helping to fund transformation and invest to save measures which bring about longer term financial and service benefits. The depletion of the Council's reserves, which has occurred over more than one year, makes generating the funding to invest in the transformation needed more difficult.



NARRATIVE STATEMENT

The Council's level for the General Fund Balance was reconsidered as a part of the budget setting process for 2023/24 and remains unchanged at £10.1M.

PRINCIPAL RISKS AND UNCERTAINTY

Risk management is an essential part of the Council's overall governance arrangements in that it provides the framework and process to enable the organisation to manage risk in a systematic, consistent and efficient way. The risk management framework comprises the overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk. The key components of this framework are:

Risk Management Policy - This provides an overview of the operating framework, arrangements and responsibilities for managing risk and is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. This policy, which is published on the council's intranet, is subject to annual review and update as necessary.

Strategic Risk Register - The Strategic Risk Register is a key document in terms of identifying, assessing and managing the council's key strategic risks. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. The Strategic Risk Register is developed and managed in consultation with the Executive Management Board (Chief Executive and Executive Directors) and is updated on a quarterly basis with the end of quarter position reported to and reviewed by the Executive Management Board. The report identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary. Risk management is increasingly being used to assess the impacts and risks to the council and its services arising from unforeseen events for example the cost-of-living crisis.

Project and Programme Risk Management - The need to identify and manage risk runs throughout the project and programme management process with 'Risks, Assumptions, Issues, Dependencies ('RAID') Logs' embedded as part of project management governance. Template documents and associated guidance is available to assist both project managers and project sponsors/boards in understanding the importance of understanding and managing risk.

Decision Taking: Corporate Report Template - The council's standard corporate report template, briefing template and EMB report template include a 'Risk Management Implications' section that requires a report author to consider and provide the 'decision taker' with relevant and proportionate information regarding the risks associated with the project or initiative that is the subject of the report.

Business Planning - An annual business planning process is in place whereby plans are developed and reviewed to ensure that they reflect the key service delivery priorities and outcomes. Service Business Plans provide an overview of the services, the outcomes (and outputs) and actions or changes required to ensure delivery. The corporate business planning template includes a section on 'risk' which recognises the importance of services identifying and understanding the risks that may threaten or adversely impact delivery of their key priorities and outcomes.

Partnerships - All key service delivery partnerships and major contracts have risk registers in place which are jointly reviewed with the supplier and includes any 'shared risk'.

4. AN EXPLANATION OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts brings together all the financial activities of the Council for the year and its financial position as at the 31 March 2023. It details both revenue and capital elements for both the General Fund and the HRA.

NARRATIVE STATEMENT

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the Council is required to produce a set of accounts in order to inform stakeholders of the Council that we have properly accounted for all the public money we have received and spent and that the financial standing of the Council is on a secure basis.

A glossary of key terms can be found at the end of this document.

Core Financial Statements:	Page
Responsibilities for the Statement of Accounts	25
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
Expenditure and Funding Analysis (Not a Core Financial Statement)	26
The purpose of this note is to report performance in a similar format used for reporting to management throughout the year.	
The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices.	
The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's service portfolios. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.	
Comprehensive Income and Expenditure Statement (CIES)	27
This records all the Council's income and expenditure for the year. The statement analyses income and expenditure by service area as well as non-service specific or corporate transactions and funding. The format followed is provided by The Chartered Institute of Public Finance and Accountancy (CIPFA) so that comparisons of local authority accounts can be undertaken.	
Movement in Reserves Statement (MiRS)	28
This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves', (i.e. those that can be applied to fund expenditure or reduce local taxation), and other 'unusable' reserves which are set aside for specific purposes. As a local authority, special dispensation is given to ensure some standard accounting entries such as depreciation do not affect the council tax payer. These amendments are shown as part of the MiRS.	
Balance Sheet	29
The Balance Sheet shows the value as at the 31 March 2023 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.	
Cash Flow Statement	30
This statement shows the reasons for changes in the Council's cash balances in year. Cash flows are classified as:	
<ul style="list-style-type: none">• Operating – this gives an indication of the extent to which services provided by the council are funded by way of taxation, grant income or payments from recipients of services	

NARRATIVE STATEMENT

- Investing – how much income has been generated from resources held to contribute to future service delivery
- Financing activities - cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Core Financial Statements (including Accounting Policies)	31 – 107
Housing Revenue Account (HRA)	108 - 111
This account summarises the transactions relating to the provision, maintenance and sale of Council houses and flats.	
Collection Fund	112 - 114
This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.	
Glossary	115 - 119
Annual Governance Statement	120 - 133
Auditor's Report and Certificate	134

5. ISSUES AND DEVELOPMENTS

COVID-19 Pandemic

Southampton City Council has continued playing a key role in the local response to COVID-19, both through its own services and via co-ordination with partner bodies such as the Local Resilience Forum (LRF) and others. A balance of £1.9M in COMF (Contain Outbreak Management Fund) was carried over into 2022/23 to continue in the local efforts to minimise the spread of the virus and minimize infections. This was used, for example, in support of nursing and care homes to maintain a stable workforce in order to reduce the risk of cross-contamination of infection from multiple care staff from different agencies going into homes/providing care and on work to future proof care homes against the ongoing risk of harbouring infection.

The Authority also continued to administer the Government's schemes of financial support to local businesses impacted by COVID-19. £8.6M of business rates relief was distributed during 2022/23 to over 1,100 local businesses.

Levelling Up

In January 2023 it was announced that the City Council has been successful in its bid for financial support from the Government's allocation to support work designed to 'level-up' the country.

The support is expected to be around £20M in capital grant and will part fund major investment to develop the Outdoor Sports Centre. In turn, this will help in cementing the legacy of the UEFA Women's Euros in Southampton while reducing inequality in physical activity and helping to improve quality of life in the city. The total investment in the Sports Centre within the capital programme is currently anticipated at around £30M.

The improvements to the Outdoor Sports Centre were previously welcomed by the public following a 12-week consultation in 2021 with 97% of respondents agreeing that they would like to see improvements at the Outdoor Sports Centre, alongside 85% of respondents saying that their use of the Outdoor Sports Centre would increase if the proposed changes were implemented.

Works began on the Outdoor Sports Centre during 2022/23, with works on the new cycle track being complete.

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Affordable Housing

Southampton City Council approved the first set of council-owned sites to be transferred to Affordable Housing Providers as part of the new Affordable Housing Framework which was approved by Cabinet.

The framework will allow the Council to use its own land to address the significant need for affordable housing in Southampton and will provide the opportunity for development of social rent, affordable rent and shared ownership properties which will help people get onto the housing ladder and own a share in their home.

The first set of council-owned sites are either vacant sites, empty buildings or have an approved decommissioning plan in place meaning that delivery of the much-needed new homes can be achieved quicker. The first set of sites will provide an estimated total of up to 300 homes.

The Council anticipates that several providers will be appointed and the framework ready to move forward in 2023.

Integrated Highways and Transport Capital Programme

Work progressed during the year on the Council's Integrated Transport & Highways Capital Programme for 2022/23, including the delivery of a number of high-profile transport schemes such as:

- Significant work has continued on the Transforming Cities Fund project, delivering £12M of improvements in the year and will continue into 2023/24.
- Active Travel Fund for cycling and walking;
- Future Transport Zone programme;
- Programme of road safety, public transport, school streets, cycle and walking, and Intelligent Transport Systems (ITS);
- Highways Roads Programme covering carriageway resurfacing, footway and kerbing reconstruction, and footway surfacing.

:

City of Culture

During 2022/23, Government decided on the national bids for City of Culture status for 2025, with Southampton being one of the candidates on the final list for consideration. Although the City did not win outright, it was a runner-up in its bid. The Council continued its work during 2022/23 with partners to develop a legacy from the work put into the bidding process to create a Culture Trust. Government offered grant funding of £0.125M, and by working with partners the Council has helped secure further funding of £1.57M from Arts Council England in funding support of creating the Culture Trust, which will need match funding from the Council and partner bodies.

The Council's Corporate Plan 2022-2030 and its strategic plans alongside those of those of stakeholders such as Solent LEP's 2050 Vision support the establishment of the Culture Trust to take this work forward with the aim to unlock economic, social and environmental benefits for the City and a multitude of stakeholders. The Corporate Plan states the aim for Southampton to "become a destination place to be proud of that puts Southampton on the map, encouraging more visitors to visit, enjoy and spend within Southampton: Support Southampton's Cultural Trust to help deliver the Cultural Strategy, Destination Management Plan, and Festival and Events Strategy to grow our citywide destination aspirations and increase visitor numbers".

Freeport

Southampton City Council has also been a part of the Solent Freeport bid alongside other local councils and major businesses. During 2022/23 Solent Freeport had its final business case considered by Government, which was formally agreed and the Freeport given the green light to proceed.

NARRATIVE STATEMENT

This initiative has numerous benefits, which include facilitating major private and publicly funded investment over the next 25 years. The forecast benefits included:

- Over £1.6Bn of private investment. This includes marine technology, advanced manufacturing and logistics and high innovation firms attracted due to the tax benefits plus a forecast 26,000 jobs created in the Solent area. Over the next 25 years the benefits include:
 - Retention of the additional business rates arising from growth locally. These will be pooled and the vast majority applied to securing investment to further facilitate local economic growth, trade and jobs.
 - Seed capital Investment provided by Government to the tune of £25M to help kick-start the necessary investment and allow the benefits of the Freeport to come on line as soon as possible.
 - Identified Freeport infrastructure and connectivity needs, in line with agreed local and regional ambitions and strategies;
 - Working towards environmental outcomes including the UK's Net Zero ambitions as well as regional ambitions and the Freeport's own net zero strategy.

Starboard Way

In July 2019, the Council agreed to proceed with the development of the Former Oakland's Community School site which will provide 103 new homes, at an expected cost of £17.4M. Construction has therefore been underway with the scheme comprising of one, two and three-bedroom houses and one and two-bedroom flats and benefits from a range of energy-efficient features. The scheme is expected to deliver a mix of social rent (36%), affordable rent (28%) and shared ownership (36%) properties. There will also be areas of formal and informal play across the site including the delivery of a new children's play area in the centre of the scheme.

Starboard Way is set to complement the surrounding area and offer a contemporary street scene by including:

- Semi-detached pairs, short terraces and small blocks of two and three-storey flats
- A mixture of roof designs
- A range of energy-efficient features, such as solar panels
- Areas of formal and informal play across the site
- A cycle path will be rerouted through the development
- Electric charging points in car parking areas to flats, plus improved electrical infrastructure (including substation upgrade) for houses to have the option for these to be installed at a later date.

The first residents moved in during 2021/22, more homes were completed and made available to residents towards the end of 2022/23 and the final stage to complete the scheme is now expected during 2023/24.

Support for Refugees

The Council continued to support refugees from both Afghanistan and Ukraine. The Afghan refugees stayed in the Home Office hotel accommodation in Southampton until the end of June 2022, before moving to a nearby local authority area or to alternative accommodation. Southampton hosts have kindly offered accommodation to the Ukrainians fleeing the war in their home country. The City Council received £2.2M from the Department for Levelling Up, Housing and Communities (DLUHC) to fund the support provided under the Homes for Ukraine Scheme. This sum has helped with immediate support for the refugees on arrival, in finding suitable accommodation in the City and ensuring they have access to services.

Accounting issues

There have been no significant changes to the Code of Practice on Local Authority Accounting for 2022/23,

NARRATIVE STATEMENT

however the update to the 2021/22 Code in relation to accounting for infrastructure assets issued in November 2022 also applies as an update to the 2022/23 Code. The requirement to implement International Financial Reporting Standard (IFRS) 16 *Leases*, has been deferred from 2022/23 until 2024/25, although local authorities have the option to adopt it earlier.

STATEMENT OF RESPONSIBILITIES

1. The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Section 151 (S151) Officer.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve the Statement of Accounts.

2. The Section 151 Officer's Responsibilities

The Council's S151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance (CIPFA)/ The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts the S151 Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Local Authority Code (any significant non-compliance being fully disclosed)

The S151 Officer has also:

- Kept proper accounting records, which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of Southampton City Council at 31 March 2023 and of its income and expenditure for the year ended 31 March 2023.

Signed **M Creighton** _____ Date
Section 151 Officer

4. Approval of the Accounts

I certify that the Statement of Accounts has been approved by a resolution of the Audit Committee in accordance with the Accounts and Audit (England) Regulations 2015 and is authorised for issue.

Signed **S Leggett** _____ Date
Chair, Audit Committee

THE FINANCIAL STATEMENTS

Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) is a note showing how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further information is contained in Note 8 on page 53. Note 5 contains an explanation of the restatement for 2021/22.

<u>2021/22 Restated</u>				<u>2022/23</u>			
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement	
£000	£000	£000		£000	£000	£000	
66,954	15,041	81,995	Children & Learning	75,535	9,933	85,468	
4,895	1,458	6,353	Communities & Customer Engagement	7,075	2,493	9,568	
2,267	5,618	7,885	Economic Development	2,775	6,062	8,837	
42,610	2,667	45,277	Finance & Change	40,878	5,490	46,368	
84,764	6,218	90,982	Health, Adults & Leisure	91,587	7,711	99,298	
9,224	1,278	10,502	Housing & the Green Environment	8,024	3,468	11,492	
(13,369)	5,996	(7,373)	Housing Revenue Account (HRA)	(7,379)	5,259	(2,120)	
13,370	3,475	16,845	Leader	12,984	3,294	16,278	
858	814	1,672	Safer City	1,297	754	2,051	
(1,518)	6,032	4,514	Transport & District Regeneration	(1,576)	6,641	5,065	
52	402	454	Housing Benefit	520	277	797	
0	(1,030)	(1,030)	Other Income & Expenditure	0	547	547	
			Other items of expenditure and income:				
0	(1,044)	(1,044)	Revaluation & Impairment of General Fund Assets	0	3,143	3,143	
0	(38,693)	(38,693)	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	0	12,598	12,598	
210,107	8,232	218,339	Cost of Services	231,720	67,670	299,390	
(178,372)	7,571	(170,801)	Other Income & Expenditure	(183,960)	(18,277)	(202,237)	
31,735	15,803	47,538	(Surplus)/Deficit	47,760	49,393	97,153	
(144,615)			Opening General Fund Balance	(111,960)			
(2,000)			Opening HRA Balance	(2,920)			
32,655			Less/Plus Deficit/(Surplus) on General Fund	46,840			
(920)			Less/Plus Deficit/(Surplus) on HRA	920			
(111,960)			Closing General Fund Balance	(65,120)			
(2,920)			Closing HRA Balance	(2,000)			
(114,880)			Closing General Fund & HRA Balance	(67,120)			

THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

Note 5 contains an explanation of the restatement for 2021/22.

<u>2021/22 Restated</u>				<u>2022/23</u>			
<u>Expenditure</u>	<u>Income</u>	<u>Net</u>		<u>Expenditure</u>	<u>Income</u>	<u>Net</u>	
£000	£000	£000		Notes	£000	£000	
259,018	(177,023)	81,995	Children & Learning		275,246	(189,778)	85,468
13,421	(7,068)	6,353	Communities & Customer Engagement		17,111	(7,543)	9,568
11,687	(3,802)	7,885	Economic Development		12,590	(3,753)	8,837
64,776	(19,499)	45,277	Finance & Change		59,505	(13,137)	46,368
154,366	(63,384)	90,982	Health, Adults & Leisure		159,871	(60,573)	99,298
16,714	(6,212)	10,502	Housing & the Green Environment		22,725	(11,233)	11,492
74,071	(81,444)	(7,373)	Housing Revenue Account (HRA)		82,332	(84,452)	(2,120)
22,916	(6,071)	16,845	Leader		21,682	(5,404)	16,278
4,748	(3,076)	1,672	Safer City		4,909	(2,858)	2,051
30,562	(26,048)	4,514	Transport & District Regeneration		31,925	(26,860)	5,065
64,678	(64,224)	454	Housing Benefit		62,159	(61,362)	797
436	(1,466)	(1,030)	Other Income & Expenditure		678	(131)	547
(1,044)	0	(1,044)	Other items of expenditure and income:	6			
(38,693)	0	(38,693)	Revaluation & Impairment of General Fund Assets		3,143	0	3,143
			Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		12,598	0	12,598
677,656	(459,317)	218,339	Cost of Services	8	766,474	(467,084)	299,390
57,508	(8,946)	48,562	Loss/ (Gain) on the disposal of Non Current Assets	12c	25,055	(11,558)	13,497
87	0	87	Contributions to Other Local Public Bodies		89	0	89
1,160	0	1,160	Contributions of Housing Capital Receipts to Government Pool		0	0	0
58,755	(8,946)	49,809	Other Operating Expenditure		25,144	(11,558)	13,586
(2,009)	(6,757)	(8,766)	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	2,703	(6,890)	(4,187)
14,991	0	14,991	Interest payable and similar charges	11	15,543	0	15,543
0	(5,727)	(5,727)	Interest and Investment Income	11	0	2,828	2,828
12,067	0	12,067	Net interest on the defined benefit liability (asset)	34b	11,061	0	11,061
25,049	(12,484)	12,565	Financing, and Investment Income & Expenditure		29,307	(4,062)	25,245
0	(107,013)	(107,013)	Council Tax Income		0	(108,146)	(108,146)
0	(39,655)	(39,655)	Business Rates		0	(47,632)	(47,632)
0	(45,750)	(45,750)	General Government Grants	37c	0	(47,264)	(47,264)
0	(12,011)	(12,011)	S31 Business Rates Grant for COVID-19 Reliefs	6, 37c	0	(4,668)	(4,668)
0	(28,746)	(28,746)	Capital Grants and Contributions	37b	0	(33,358)	(33,358)
0	(233,175)	(233,175)	Taxation and Non-Specific Grant Income		0	(241,068)	(241,068)
761,460	(713,922)	47,538	Deficit/(Surplus) on the Provision of Services		820,925	(723,772)	97,153
		(15,671)	Deficit/(Surplus) on revaluation of non current assets	22a			(40,994)
		0	Impairment losses/(gains) on non-current assets charged to the revaluation reserve	22a			0
		(211,034)	Remeasurements of the net defined benefit liability (asset)	34b			(367,877)
		(226,705)	Other Comprehensive (Income)/Expenditure				(408,871)
		(179,167)	Total Comprehensive (Income)/Expenditure				(311,718)

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Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2022	(10,066)	(101,894)	(2,920)	0	(14,750)	0	(35,835)	(165,465)	(933,432)	(1,098,897)
<u>Movement in Reserves during 2022/23</u>										
Total Comprehensive Income and Expenditure	85,025		12,128					97,153	(408,871)	(311,718)
Adjustments between accounting basis and funding basis under regulations (note 10)	(38,185)		(11,208)		(5,055)		886	(53,562)	53,562	0
Transfers to / (from) earmarked reserves (note 9)	(46,840)	46,840						0		0
(Increase) / Decrease in Year	0	46,840	920	0	(5,055)	0	886	43,591	(355,309)	(311,718)
Balance at 31 March 2023	(10,066)	(55,054)	(2,000)	0	(19,805)	0	(34,949)	(121,874)	(1,288,741)	(1,410,615)

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2021	(10,066)	(134,549)	(2,000)	0	(10,656)	(2,497)	(48,752)	(208,520)	(711,210)	(919,730)
<u>Movement in Reserves during 2021/22</u>										
Total Comprehensive Income and Expenditure	89,355		(41,817)					47,538	(226,705)	(179,167)
Adjustments between accounting basis and funding basis under regulations (note 10)	(56,700)		40,897		(4,094)	2,497	12,917	(4,483)	4,483	0
Transfers to / (from) earmarked reserves (note 9)	(32,655)	32,655						0		0
(Increase) / Decrease in Year	0	32,655	(920)	0	(4,094)	2,497	12,917	43,055	(222,222)	(179,167)
Balance at 31 March 2022	(10,066)	(101,894)	(2,920)	0	(14,750)	0	(35,835)	(165,465)	(933,432)	(1,098,897)

THE FINANCIAL STATEMENTS

Balance Sheet

<u>31 March 2022</u>		<u>Notes</u>	<u>31 March 2023</u>
<u>£000</u>			<u>£000</u>
1,563,793	Property, Plant & Equipment	12	1,596,175
191,274	Heritage Assets	13	191,920
114,136	Investment Properties	14	112,364
8,808	Intangible Assets	15	9,501
31,921	Long Term Investments	17b	26,827
3,495	Long Term Debtors	18	3,415
1,913,427	Non Current Assets		1,940,202
24,716	Short Term Investments	17b	11,394
909	Stock (Inventories)		823
53,142	Short Term Debtors	18	55,252
54,502	Cash & Cash Equivalents	19	15,634
133,269	Current Assets		83,103
(6,654)	Cash & Cash Equivalents	19	(3,804)
(364)	Deferred Liabilities	38	(364)
(16,827)	Short Term Borrowing	17b	(25,774)
(140,486)	Short Term Creditors	20	(105,984)
(7,137)	Provisions	21	(4,863)
(171,468)	Current Liabilities		(140,789)
(44,412)	Long Term Creditors	17b	(41,118)
(6,387)	Provisions	21	(2,970)
(239,197)	Long Term Borrowing	17b	(278,597)
	Other Long Term Liabilities		
(12,734)	- Deferred Liabilities	38	(12,370)
(49,856)	- Cap. Grants & Conts Receipts in Advance	37a	(38,792)
(423,745)	- Pension Fund Liability	34c	(98,054)
(776,331)	Long Term Liabilities		(471,901)
1,098,897	Net Assets		1,410,615
	Useable Reserves		
(14,750)	Useable Capital Receipts Reserve	10	(19,805)
(35,835)	Cap. Grants & Conts Unapplied	10	(34,949)
(101,894)	Earmarked Revenue Reserves	9	(55,054)
(10,066)	General Fund Balance	10	(10,066)
(2,920)	Housing Revenue Account Balance	10	(2,000)
(165,465)			(121,874)
	Unuseable Reserves		
(408,605)	Revaluation Reserve	22a	(435,248)
(3,894)	Pooled Fund Adjustment Account	22g	1,199
(965,045)	Capital Adjustment Account	22b	(960,708)
423,745	Pension Reserve	22c	98,054
6,048	Collection Fund Adjustment Account	22d	(5,712)
3,227	Accumulated Absences Account	22e	2,582
11,092	Dedicated Schools Grant Adjustment Account	22f	11,092
(933,432)			(1,288,741)
(1,098,897)	Total Reserves		(1,410,615)

THE FINANCIAL STATEMENTS

Cash Flow Statement

<u>2021/22</u>		<u>2022/23</u>
£000		Notes £000
(47,538)	Net surplus or (deficit) on the provision of services	(97,153)
120,146	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a) 88,400
<u>(53,042)</u>	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a) <u>(59,863)</u>
19,566	Net Cash Flows From Operating Activities	(68,616)
(30,095)	Net Cash flows from Investing Activities	23 c) (23,124)
30,722	Net Cash flows from Financing Activities	23 d) <u>55,722</u>
20,193	Net Increase / (Decrease) in Cash and Cash Equivalents	(36,018)
27,655	Cash and cash equivalents at the beginning of the reporting period	23 e) 47,848
<u>47,848</u>	Cash and Cash Equivalents at the End of the Reporting Period	23 e) <u>11,830</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

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NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

This Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 (as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2022), which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (as updated), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in these Financial Statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts are prepared on a going concern basis, that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription, and there is no notice from Government to that effect.

The Council has undertaken cashflow forecasting up to the end of May 2025. The projections for the revenue budget show that the Council has sufficient liquidity over this period. There is no identified need for borrowing to manage the working capital for revenue balances, other than possible temporary borrowing to manage fluctuations in cash flow. The Council does have a significant capital programme for the same period and there was always an intent to borrow, either from the Public Works Loans Board (PWLB) or other sources, to fund this programme. The timing and extent of the capital programme is under regular review. The Council is of the view that appropriate loan arrangements will be available if required. The Council is forecast to be within its authorised limit and operational boundary for external debt and has significant headroom between its forecast gross debt and its capital financing requirement.

In making its going concern assessment, the Council must also consider its budgets and the level of reserves.

The Council assesses its financial position for future years through the medium-term financial planning process. At the Full Council meeting in March 2024, the budget for 2024/25 was agreed relying on £22.7M of new planned savings and £39.3M of assumed Exceptional Financial Support (EFS) from Government (in the form of a capitalisation direction) to achieve a balanced position. The EFS is for one year only and a further budget shortfall of £47.9M was forecast for 2025/26. Revenue reserves (excluding schools' balances) were forecast to be £20.0M at the end of 2024/25, which are considered insufficient to cover the council's risks.

The Council has established a comprehensive Transformation Programme as part of its plans to address the structural deficit and a Transformation and Improvement Plan is a condition of the Government's EFS offer. Alongside this, work is continuing during 2024/25 on bringing forward further proposals to reduce in-year spending and to help close the forecast budget shortfall in 2025/26 and future years.

Although the Council has sufficient liquidity over the specified period, in view of the forecast budget shortfalls and low revenue reserves the Council has assessed that the combination of the risks and uncertainties it faces at this time creates a material uncertainty which casts doubt on its ability to continue to operate planned operational services for the period of 12 months to the end of May 2025.

b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract

NOTES TO THE CORE FINANCIAL STATEMENTS

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for retrospectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature within one working day from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk or change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

d) Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

e) Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the "Minimum Revenue Provision", by way of an adjusting

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transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

f) Council Tax and Non-Domestic Rates (NDR)

The Council acts as an agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as a principal, collecting Council Tax and NDR for itself. Billing authorities are required by statute to maintain a separate fund (the "Collection Fund") for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

g) Dedicated Schools Grant Deficit

The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2020 require particular accounting practices in relation to the treatment of local authorities' schools budget deficits. Where a local authority has a deficit on its schools budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account. Instead, the deficit is charged to an unusable reserve the Dedicated Schools Grant Adjustment Account by a transfer from the General Fund Balance in the Movement in Reserves Statement. The treatment of DSG deficits in this way have been extended to 2025/26.

h) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of Teacher's annual leave entitlement not taken by the year end, in accordance with CIPFA's methodology. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. An accrual was also made in 2021/22 in respect of annual leave carried forward by non-teaching staff as carry forward balances were much higher than usual due to COVID-19. Leave carry-forwards for non-teaching staff are now back down to more normal levels and no accrual has been made in 2022/23 as it is not considered material to the accounts.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment

NOTES TO THE CORE FINANCIAL STATEMENTS

of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MiRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are predominantly members of two separate pension schemes:

- The Local Government Pension Scheme, administered by Hampshire County Council; and
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit scheme:

- The liabilities of the Hampshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates etc, and projections of earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate based on the AA corporate bond rate as required by the Code
- The assets of the Hampshire County Council pension fund attributable to the Council are included in the balance sheet at fair value:
 - Quoted securities – Current bid price.
 - Unquoted securities – Professional estimate.
 - Unitised securities – Current bid price.
 - Property – Market value.

The change in the net pensions' liability is analysed into the following components:

Service Cost comprising:

- *Current Service Cost* – The increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked;
- *Past Service Cost* – The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement; and
- *Net Interest on the Net Defined Benefit Liability (Asset)* – i.e. Net interest expense for the Council. The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments.

Remeasurements comprising:

NOTES TO THE CORE FINANCIAL STATEMENTS

- *Return on Planned Assets* – Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure
- *Actuarial Gains and Losses* – Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pension Reserve as Other Comprehensive Income and Expenditure; and
- *Contributions Paid to Hampshire County Council Pension Fund* – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the MiRS this means there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Teachers' Pension Scheme

Liabilities for the Teachers' scheme benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service line with the Comprehensive Income and Expenditure Statement is charged in year.

i) Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – The Financial Statements are adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – The Financial Statements are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Financial Statements.

j) Financial instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

NOTES TO THE CORE FINANCIAL STATEMENTS

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI) – not applicable to the Council.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of the financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and that interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the Council. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Where credit risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where credit risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

k) Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

NOTES TO THE CORE FINANCIAL STATEMENTS

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or the Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) line in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustments Account (CAA). Amounts in the Capital Grants Unapplied reserve are transferred to the CAA once they have been applied to fund capital expenditure.

Business Improvement District (BID)

The “Go Southampton” BID is in its second term with a 5-year scheme that commenced in April 2022 and applies across the City Centre. The scheme is funded by an annual levy paid by around 600 non-domestic ratepayers in that area. The Council acts as agent under the scheme.

Community Infrastructure Levy (CIL)

The Council has elected to charge a CIL. The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure.

I) Heritage Assets

The Council’s Heritage Assets are mainly held in the Council’s museums, although a number of Ancient Monuments (including the City Walls) are also held.

Heritage Assets are held principally for their contribution to knowledge and/or culture. They are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below.

Heritage Assets on the Balance Sheet

- Works of Art – the Art Collection, which includes paintings (both oil and watercolour), sketches, and sculptures, is ‘designated’ (i.e. officially recognised as significant) and numbers approximately 3,500 items, most of which have been acquired through donations.
- The Collection has been brought onto the Balance Sheet based on Insurance Values.
- Ancient Monuments – the Council has some Ancient Monuments including:
 - The Bargate; and
 - Town Walls and various Vaults.

The Council’s Ancient Monuments have been brought onto the Balance Sheet based on Historical Cost.

NOTES TO THE CORE FINANCIAL STATEMENTS

Heritage Assets not on the Balance Sheet

- Archaeology – The main component of the Archaeology Collections is the excavation archives which result from all archaeological investigations carried out within the City boundary, from full scale excavations, to watching briefs for building surveys. The wider Collection comprises objects, paper records, plans, drawings, photographs, reports and increasingly, digital data. Nearly 2,000 of such “site archives” have been deposited.
- Archives – This comprises a Catalogue listing – including descriptions – of over 10,000 accessioned items. The items range from individual documents to huge collections of material (e.g. 1.25 million cards in the Central Index of Merchant Seaman). It is estimated that the Archives take up approximately 2 linear miles of shelving; and
- Local and Maritime Collections – Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton’s first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are between two and three hundred thousand items in the collections. About 10% of these items are on databases or spreadsheets, the rest are still on paper records.

The Council does not consider that reliable cost or valuation information can be obtained for the items noted above. This is because of the diverse nature of the assets held and lack of comparable market values.

m) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost and carried at cost less accumulated depreciation. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

n) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm’s-length. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MiRS and posted to the CAA and (for any sale proceeds greater than £10,000) the Useable Capital Receipts Reserve.

o) Joint Operations

Joint operations are arrangements where the parties that have control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

NOTES TO THE CORE FINANCIAL STATEMENTS

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liability incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

p) Leases

Leases are classified as finance leases where the terms of the lease substantially transfer all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

The Council does not have any material finance or operating leases, where it is the lessee.

The Council as Lessor

- Finance Leases – the Council does not have any material finance leases where it is the lessor, although has entered into a number of Private Finance Initiative (PFI) arrangements (see below); and
- Operating Leases – where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

q) Overheads and Support Services

The cost of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

r) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

NOTES TO THE CORE FINANCIAL STATEMENTS

- The purchase price; and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the CAA in the MiRS.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Community Assets – Depreciated historical cost.
- Highways Infrastructure Assets – generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which were deemed at that time to be historical cost.
- Dwellings – Current value, determined using the basis of existing use value for social housing (EUV-SH).
- Assets Under Construction – Historic cost
- All Other Assets – Current value, determined as the amount that would be paid for the asset in its existing use, (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

When decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the CAA.

Impairment

Assets are reviewed at each year-end to ascertain whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life, (i.e. freehold land and certain Community Assets), and assets that are not yet available for use, (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and Other Buildings – Straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, Plant, Furniture and Equipment – A percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- Infrastructure Assets –
 - Straight-line allocation up to 40 years on historical assets
 - Straight-line allocation over the following useful economic lives, for additions.

Asset	Estimated Useful Asset Life (Years)
Carriageways	30
Footways and cycle tracks	30
Structures (bridges, tunnels and underpasses)	120
Street lighting	50
Street furniture	30
Traffic management systems	25
Parks & Open Space Infrastructure	30
Coastal Infrastructure	50

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately to the extent that the components asset lives differ significantly.

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the CAA.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale

NOTES TO THE CORE FINANCIAL STATEMENTS

transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment, Infrastructure or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the CAA.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government (with modified rules in place for 2022/23). The balance of receipts remains within the Capital receipts Reserve and can then only be used for new capital investment (or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Useable Capital Receipts from the General Fund Balance in the MiRS.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MiRS.

s) Private Finance Initiatives (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair Value of the Services Received during the Year – Debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance Cost – A percentage interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent Rent – Increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

NOTES TO THE CORE FINANCIAL STATEMENTS

- *Payment Towards Liability* – Applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- *Lifecycle Replacement Costs* – Proportion of the amounts payable are posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

In 2022/23 the Council received a rebate on its unitary charge from the refinancing of the Street Lighting PFI arrangement, which has been accounted for as a contingent rent adjustment.

t) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but, either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a Note to the Financial Statements.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a Note to the Financial Statement where it is probable that there will be an inflow of economic benefits or service potential.

u) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance so that there is no net charge against

NOTES TO THE CORE FINANCIAL STATEMENTS

Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirements and employee benefits, and the deficit on the Dedicated Schools Grant and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

v) Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MiRS from the General Fund Balance to the CAA then reverses out the amounts charged so that there is no impact on the level of Council Tax.

w) Schools

The Code of Practice on Local Authority Accounting in the United Kingdom specifies that all schools maintained by the Council are deemed to be under the Council's control. The transactions and balances attributable to the governing bodies of the maintained schools have been consolidated into the Council's financial statements, applying accounting policies for recognition and measurement consistent with those applied by the Council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the Council and schools have been eliminated.

x) Value Added Tax (VAT)

All Income and expenditure, whether revenue or capital in nature, excludes any amounts related to VAT, as all VAT collected is payable to HMRC and the Council – using its 'Section 33 status' within the VAT Act 1994 – is able to recover all VAT paid.

y) Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- i) in the principal market for the asset or liability; or
- ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

z) Rounding Convention

Unless otherwise stated the convention used in these Financial Statements is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures, and therefore may – from time-to-time – not be the strict sums of the figures presented in the text or tables.

2. Accounting Standards That Have Been Issued But Not Yet Adopted

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2023/24 Code. New or amended standards that are expected to be introduced in the 2023/24 Code that apply from 1 April 2023 are:

- Definition of Accounting Estimates, Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – these amendments are intended to help entities distinguish between accounting policies and accounting estimates and clarifies that changes in estimates resulting from new information or new developments are not correction of errors.
- Disclosure of Accounting Policies Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* – these amendments change the requirement to disclose significant accounting policies to one about material accounting policy information and are intended to help accounts preparers in deciding which accounting policies to disclose in their financial statements.
- Deferred Tax relating to Assets and Liabilities arising from a Single Transaction, Amendments to IAS 12 *Income Taxes* – changes to initial recognition exemptions for companies. Only applicable to local authorities with group accounts.
- Reference to the Conceptual Framework, Amendments to IFRS 3 *Business Combinations* – updates the reference in the standard to the 2018 Conceptual Framework and clarifies the accounting treatment for liabilities and contingent assets in a business combination.

None of these amendments are anticipated to have a material impact on the Council's financial performance and financial position.

- IFRS 16 *Leases* – requiring all leases to be recognised on the Balance Sheet, subject to a de-minimis and exemptions. CIPFA/LASAAC deferred the requirement to account for leases in accordance with IFRS 16 from 1 April 2022 until 1 April 2024, however local authorities are allowed to adopt the standard before that date.

The Council is considering voluntarily adopting IFRS 16 in 2023/24. Adoption of the standard is not expected to have a material impact on the Council's financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1 (Accounting Policies), the Council has had to make certain judgements about complex transactions.

The critical judgements that have the most significant effect on the amounts in the Financial Statements are:

- **Local Government Funding** – There is a high degree of uncertainty about future levels of funding for local government. The Local Government Finance Settlement agreed in February 2023 only covered

NOTES TO THE CORE FINANCIAL STATEMENTS

2023/24, although principles to be applied for 2024/25 were set out in a policy statement in December 2022. Changes to the local government funding system have been deferred to beyond the life of the current parliament. Funding allocated in the 2021 Spending Review for Adult Social Care reforms was repurposed in the 2023/24 finance settlement and the reforms delayed until October 2025. There is uncertainty as to what funding will be made available for the reforms and whether this will be sufficient to meet costs when the reforms are implemented. There is also uncertainty over the impact of the cost of living crisis on the Council's income streams. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. Details of the carrying value of Property, Plant and Equipment are provided in Note 12.

- **Asset Classifications** – The Council has made judgements on whether assets are classified as Investment Property, or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Council it is deemed to be a Property, Plant and Equipment asset. If there is no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used. Details of the fair value of Investment Property are provided in Note 14.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises schools on the Balance Sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council owns the property, has the ability to employ the staff of the school, and is able to set the admission criteria.

There are currently six types of schools:

- Community schools,
- Voluntary Aided (VA) schools,
- Voluntary Controlled (VC) schools,
- Foundation / Trust schools,
- Academies, and
- Free Schools

Community schools are owned by the Council, staff are appointed by the Council, who also sets the admission criteria. Therefore, these schools are recognised on the Council's Balance Sheet and are included within Other Land and Buildings as part of Property, Plant and Equipment.

VA schools are maintained schools and often have a religious character with the school being owned by the religious body. These schools are paid capital funding on a similar basis to other categories of school, but the governing body usually pays at least 10% of the costs of capital work. Responsibility for work to VA school premises is shared between the school's governing body and the Council. In simple terms the Council has responsibility for the playing fields and the governing body is liable for all other capital expenditure. Staff in VA schools are appointed by the schools' governing body. The value of these schools is not included in the Council's Balance Sheet. VC schools are owned by the religious body, staff are appointed by the governors, but are employed by the Council, who also sets the admission criteria. However, like VA Schools, the value of these schools is not included within the Council's Balance Sheet.

Staff in Foundation/Trust, Academy and Free schools are appointed by the schools' governing body, which also set the admission criteria. The Council does not receive the economic benefit or service potential of these schools and does not therefore recognise them on the Council's Balance Sheet once transfer agreements have been completed.

The table below illustrates the number and type of schools:

NOTES TO THE CORE FINANCIAL STATEMENTS

Status as at 31 March 2023	Infant	Junior	Primary	Secondary	Other	Total
Academies	8	5	11	6	2	32
Catholic Voluntary Aided Schools			2	1		3
Church of England Voluntary Aided Schools			1			1
Church of England Voluntary Controlled Schools			3			3
Community Schools			5		4	9
Foundation Trust	2	3	14	5	2	26
Free Schools			1			1
Grand Total	10	8	37	12	8	75

- Accounting for Schools - Transfers to Academy Status** – When a school that is held on the Council’s Balance Sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property, Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the asset is transferred to Other Land and Buildings, (within Property Plant and Equipment), and on the date of transfer to an Academy the Council accounts for this as a disposal for nil consideration. The same treatment has been applied to the construction of St Marks all-through school.
- Highways Infrastructure Assets** - The Council has elected to take up a statutory override relating to the accounting for highways infrastructure assets. The update provides that for all statements of accounts that are currently open up to 2024/25, authorities are not required to report gross book value and accumulated depreciation for infrastructure assets, because the information is unlikely to faithfully represent the asset position to the users of the financial statements. In accordance with the temporary relief offered by the Update to the Code on infrastructure assets the Note 12(e) does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.
- Heritage Assets** – The Council does not recognise heritage assets on the Balance Sheet where information on cost or valuation is not available and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements. This applies to archives, archaeology collections and local and maritime collections. Details of the carrying value of heritage assets that are recognised on the Balance Sheet are provided in Note 13.
- Lease Classifications** – The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on an overall assessment of a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. None of the Council’s lease arrangements are considered to be finance leases. Note 31 provides further details on where the Council is acting as a lessor.
- Contractual Arrangements** – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets). None of the Council’s contractual arrangements are considered to meet the tests of a lease.
- PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement – see Note 32 PFI and Similar Contracts for further details.
- Financial Assets** – The Council has assessed that its investment in the CCLA Local Authorities Property Fund should be measured at Fair Value through Profit and Loss. Note 17 provides details of the fair value of the fund.

NOTES TO THE CORE FINANCIAL STATEMENTS

- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision is required or a contingent liability noted. The judgements are based on the degree of certainty around the results of pending legal actions. Note 21 provides further details on provisions and Note 35 for contingent liabilities.
- **Government Grants** – the Council has received grant funding to support householders with energy bills. The Council has made judgements about whether it is acting as principal or agent in relation to this funding. Where the Council is acting as principal the grant receipts have been recognised as income and associated payments as expenditure. Where the Council is acting as agent the grant receipts and corresponding payments are not included in the Comprehensive Income and Expenditure Statement (CIES), other than any element of the funding relating to administration costs. Further details of grants received, including those where the Council is acting as agent and are not recognised in the CIES, are provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of the estimation means that actual outcomes could differ from those estimates.

The key judgements and estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	<p>The Council carries out a rolling programme of valuations for PPE required to be measured at current value and £1,220.5M of assets were valued at current value in 2022/23.</p> <p>Property values will vary according to market conditions or, where valued on a depreciated replacement cost basis, land values, construction costs, lifespans and remaining useful economic life will be key variables.</p> <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The pressures on the Council's budget makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p>	<p>A 1% change to the PPE valuations made for the year would change the reported value of PPE by £12.2M.</p> <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.9M if the useful lives were reduced by one year.</p>
Investment Property	<p>The Council values its Investment Property (IP) annually and the fair value at 31 March 2023 was £112.4M.</p>	<p>A 1% change to the IP valuations would change the reported value of IP by £1.1M.</p>

NOTES TO THE CORE FINANCIAL STATEMENTS

	<p>Key assumptions in the valuation of investment property include cash flows, market rents and yield.</p> <p>It is uncertain what impact the current economic climate will have on property values and there is a risk of material changes during the next year.</p>	
NDR Appeals Provision	<p>Since the introduction of the Business Rates Retention Scheme from 1 April 2013, local authorities are liable for successful appeals/challenges against business rates charged to businesses. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2023, the Council's share of which is £5.3M.</p> <p>The estimate is based on an assessment by an external advisor of the likely success of the appeals, checks and challenges outstanding on the Valuation Office Agency (VOA) list and projected appeals, adjusted for local knowledge.</p>	<p>An increase or reduction of the appeals provision estimate of 10%, would increase/(reduce) the Council's share of the NDR appeals provision by £0.5M.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2023 and the projected service cost for the year ending 31 March 2023 is set out below.</p> <p>In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34 e).</p>
Funded LGPS Benefits Discount rate assumption		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,129.961	1,170.194
% change of present value of total obligation	-1.7%	1.8%
Projected service cost (£M's)	26.856	29.180
Approximate % change in projected service cost	-4.1%	4.2%
Rate of general increase in salaries		
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,150.653	1,148.353
% change of present value of total obligation	0.1%	-0.1%
Projected service cost (£M's)	28.004	28.004

NOTES TO THE CORE FINANCIAL STATEMENTS

Approximate % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,169.045	1,131.111
% change of present value of total obligation	1.7%	-1.6%
Projected service cost (£M's)	29.180	26.856
Approximate % change in projected service cost	4.2%	-4.1%
Post retirement mortality assumption		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	1,179.390	1,119.616
% change of present value of total obligation	2.6%	-2.6%
Projected service cost (£M's)	29.012	26.996
Approximate % change in projected service cost	3.6%	-3.6%
* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them		

5. Prior Period Adjustments

The service analysis in the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement and Note 8 Expenditure and Funding Analysis is based on the Cabinet portfolios in place from May 2022. Prior year comparatives have been updated to reflect the new structure. In the EFA the £31.735M deficit on Net Expenditure Chargeable to the General Fund and HRA Balances, £15.803M deficit for Adjustments between the Funding and Accounting Basis and £47.538M deficit for Net Expenditure in the CIES have not changed as a result of the 2021/22 restatement. In the CIES the £761.460M Expenditure, £713.922M Income and £47.538M Deficit on the Provision of Services have not changed as a result of the 2021/22 restatement.

The respective 2021/22 contributions of Southampton City Council and the Hampshire and Isle of Wight Integrated Care Board (formerly Clinical Commissioning Group) for the Locally Based Hospital Unit were transposed in Note 39 Pooled Budgets and have been restated.

2022/23 opening balances for council dwellings gross book value and depreciation have been restated by £19.153M to reflect the writing out of cumulative depreciation on indexation of council dwelling valuations.

No other prior period adjustments have been made.

6. Other Items of Expenditure and Income

Business rates income relating to COVID-19

The accounting arrangements for business rates income mean that the Council's share of the loss on the Collection Fund (as estimated in January 2022) for rate reliefs announced by the government in March 2021 to support particular business sectors during the pandemic was charged to the General Fund in 2022/23 as part of the deficit on the Collection Fund being recouped. The Council received £12.0M of government grant income in 2021/22 to compensate for the actual loss incurred and this is shown separately within Taxation and Non-Specific Grant Income on the face of the CIES for this prior year. The net additional government grant for business rates reliefs was carried forward from 2021/22 via the Revenue Grants Reserve – General

NOTES TO THE CORE FINANCIAL STATEMENTS

and transferred to the General Fund in 2022/23 to offset the deficit charged (see Note 9 Earmarked Reserves). In 2022/23 the Council awarded COVID Additional Relief Fund (CARF) relief to businesses for which the Council received £4.7M of government grant income in 2022/23 as compensation. As with the previous year, there is a timing difference between the grant income being received in the General Fund and the charge from the Collection Fund for the loss incurred. The additional S31 business rates reliefs grant over and above what was budgeted for in 2022/23 has been transferred to the Revenue Grants Reserve - General to be used to meet this loss from the General Fund in 2023/24.

Revaluation and Impairment of Property Plant and Equipment

The Council, as in prior years, discloses downward and upward revaluations (through CIES) and impairments of General Fund and HRA properties separately. These items are disclosed separately within the CIES to avoid distortion of comparisons between years.

7. Events after the Reporting Period

The statement of accounts was authorised for issue by the Section 151 Officer on the 30 September 2024. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2023, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

8. Expenditure and Funding Analysis

a) Notes to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Adjustments for Capital Purposes

The Cost of Services has been adjusted to add in depreciation, impairment and revaluation gains/losses and capital expenditure on third party assets which is not recognised on the Council's balance sheet. Capital expenditure funded from revenue and PFI principal repayments have been removed. Adjustments for capital purposes have also been made to:

- **Other operating expenditure** – adjustments for capital disposals with transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charge for capital financing i.e. Minimum Revenue Provision is deducted from other income and expenditure as it is not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – add in capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure

NOTES TO THE CORE FINANCIAL STATEMENTS

Statement and amounts payable/receivable to be recognised under statute:

- **For services** – add in expenditure for staff holiday entitlement, add in income and expenditure not included in the outturn report, remove transfers to/from earmarked reserves and transfer costs between services and from Other Income and Expenditure.
- **For financing and investment income and expenditure** – transfer PFI finance costs and movement of impairment allowances/debt write-offs from service lines.
- **For taxation and non-specific grant income and expenditure** – represents the difference between the amount received under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Adjustments between Funding and Accounting Basis 2022/23				
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pension Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Children & Learning	6,716	6,894	(3,677)	9,933
Communities & Customer Engagement	(22)	1,389	1,126	2,493
Economic Development	2,150	1,447	2,465	6,062
Finance & Change	1,888	5,755	(2,153)	5,490
Health, Adults & Leisure	2,441	4,403	867	7,711
Housing & the Green Environment	3,210	1,997	(1,739)	3,468
Housing Revenue Account (HRA)	0	5,777	(518)	5,259
Leader	1,234	2,157	(97)	3,294
Safer City	2	697	55	754
Transport & District Regeneration	6,809	609	(777)	6,641
Housing Benefit	0	0	277	277
Other Income & Expenditure	0	0	547	547
Other items of expenditure and income:				
Revaluation & Impairment of General Fund Assets	3,143	0	0	3,143
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	12,598	0	0	12,598
Cost of Services	40,169	31,125	(3,624)	67,670
Other Income and Expenditure from the Expenditure and Funding Analysis	(25,650)	11,061	(3,688)	(18,277)
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	14,519	42,186	(7,312)	49,393

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments between Funding and Accounting Basis 2021/22 Restated

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children & Learning	7,475	7,528	38	15,041
Communities & Customer Engagement	(24)	1,574	(92)	1,458
Economic Development	2,248	1,803	1,567	5,618
Finance & Change	1,889	6,847	(6,069)	2,667
Health, Adults & Leisure	2,764	5,019	(1,565)	6,218
Housing & the Green Environment	2,624	2,352	(3,698)	1,278
Housing Revenue Account (HRA)	0	6,514	(518)	5,996
Leader	1,437	2,856	(818)	3,475
Safer City	0	832	(18)	814
Transport & District Regeneration	6,290	667	(925)	6,032
Housing Benefit	0	0	402	402
Other Income & Expenditure	0	0	(1,030)	(1,030)
Other items of expenditure and income:				
Revaluation & Impairment of General Fund Assets	(1,044)	0	0	(1,044)
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	(38,693)	0	0	(38,693)
Cost of Services	(15,034)	35,992	(12,726)	8,232
Other Income and Expenditure from the Expenditure and Funding Analysis	5,690	12,067	(10,186)	7,571
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	(9,344)	48,059	(22,912)	15,803

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Analysis of income and expenditure by nature

Analysis of income and expenditure by nature		
2021/22 £000		2022/23 £000
	Income	
(124,793)	Revenue from contracts with service recipients	(129,148)
(410,221)	Government grants and contributions	(412,231)
(10,810)	Other service income	(10,995)
(6,757)	Income in relation to investment properties	(6,890)
(5,727)	Interest and investment income	2,828
(146,668)	Income from council tax and non-domestic rates	(155,778)
(8,946)	Proceeds from the disposal of non-current assets	(11,558)
(713,922)		(723,772)
	Expenditure	
298,830	Employee benefits expenses	312,446
369,818	Other service expenses	389,079
7,086	Depreciation, amortisation, impairments and revaluations	67,741
14,991	Interest payable and similar charges	15,543
12,067	Net interest expense on the pension defined liability	11,061
1,160	Payments to Housing Capital Receipts Pool	0
57,508	Costs from the disposal of non-current assets	25,055
761,460	Total Expenditure	820,925
47,538	(Surplus) or Deficit on the Provision of Services	97,153

c) Analysis of service income

Analysis of Service Income 2022/23	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Children & Learning	(187,817)	(1,894)	(67)	(189,778)
Communities & Customer Engagement	(4,761)	(2,755)	(27)	(7,543)
Economic Development	(818)	(1,614)	(1,321)	(3,753)
Finance & Change	(5,678)	(6,956)	(503)	(13,137)
Health, Adults & Leisure	(46,868)	(13,705)	0	(60,573)
Housing & the Green Environment	(6,868)	(3,968)	(397)	(11,233)
Housing Revenue Account (HRA)	0	(82,375)	(2,077)	(84,452)
Leader	(1,296)	(4,058)	(50)	(5,404)
Safer City	(627)	(1,754)	(477)	(2,858)
Transport & District Regeneration	(10,846)	(9,938)	(6,076)	(26,860)
Housing Benefit	(61,362)	0	0	(61,362)
Other Income & Expenditure	0	(131)	0	(131)
	(326,941)	(129,148)	(10,995)	(467,084)

NOTES TO THE CORE FINANCIAL STATEMENTS

Analysis of Service Income 2021/22 Restated	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Children & Learning	(173,851)	(3,067)	(105)	(177,023)
Communities & Customer Engagement	(4,395)	(2,650)	(23)	(7,068)
Economic Development	(599)	(1,470)	(1,733)	(3,802)
Finance & Change	(12,333)	(6,601)	(565)	(19,499)
Health, Adults & Leisure	(49,500)	(13,884)	0	(63,384)
Housing & the Green Environment	(2,368)	(3,406)	(438)	(6,212)
Housing Revenue Account (HRA)	0	(80,454)	(990)	(81,444)
Leader	(3,309)	(2,701)	(61)	(6,071)
Safer City	(422)	(2,099)	(555)	(3,076)
Transport & District Regeneration	(12,713)	(7,761)	(5,574)	(26,048)
Housing Benefit	(64,224)	0	0	(64,224)
Other Income & Expenditure	0	(700)	(766)	(1,466)
	(323,714)	(124,793)	(10,810)	(459,317)

9. Transfers (to) / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in year.

	<u>Balance</u> <u>31 March</u> <u>2022</u>	<u>Net</u> <u>Transfers</u> <u>In</u> <u>2022/23</u>	<u>Net</u> <u>Transfers</u> <u>Out</u> <u>2022/23</u>	<u>Balance</u> <u>31 March</u> <u>2023</u>
	£000	£000	£000	£000
<u>Earmarked Reserves</u>				
<u>General Fund</u>				
Medium Term Financial Risk Reserve	(57,048)		28,696	(28,352)
Revenue Grant Reserve - General	(20,928)		15,499	(5,429)
Portfolio Carry Forwards Reserve	(4,487)		3,148	(1,339)
PFI Sinking Fund	(4,386)		11	(4,375)
Insurance Reserve	(2,368)		372	(1,996)
On Street Parking	(2,332)	(882)		(3,214)
DSG Reserve	0	(992)		(992)
General Fund Contributions to Capital	(932)	(2)		(934)
Other Reserves	(3,711)		748	(2,963)
	(96,192)	(1,876)	48,474	(49,594)
<u>Schools</u>				
School Balances	(5,702)		242	(5,460)
	(101,894)	(1,876)	48,716	(55,054)

NOTES TO THE CORE FINANCIAL STATEMENTS

The purposes of the main reserves are noted below:

Medium Term Financial Risk Reserve

As part of the Council's Medium Term Financial Strategy (MTFS) monies have been set aside on a non-recurrent basis to mitigate the risks of changes to the funding system and volatility of funding streams, demand pressures and the potential for planned savings to be delayed.

Revenue Grants Reserve – General

This reserve holds grant funding that has been ring-fenced to be used in future years. The balance at 31 March 2022 included £14.1M of COVID-19 related grant funding. £1.3M of the balance at 31 March 2023 (£11.6M at 31 March 2022, included within COVID-19 related grant funding) is for additional S31 business rates relief grants over and above the budgeted grant income for 2022/23. The accounting arrangements for business rates mean there are timing differences between the receipt of compensation funding for business rates reliefs awarded under government policy and when the Council's share of the corresponding loss on the Collection Fund is charged to the General Fund. The compensation funding received in 2021/22 and carried forward via this reserve was transferred to the General Fund during 2022/23 to offset the charge made for the loss on the Collection Fund. The compensation funding received in 2022/23 has been set aside in the reserve to be used to offset the loss to be charged to the General Fund in 2023/24 and it does not represent additional resources available to the Council to spend on service provision.

Portfolio Carry Forward Reserve

This reserve holds budgets carried forward for specific purposes as agreed by Council.

PFI Sinking Fund

The surplus PFI grant is held in a reserve to meet future contract liabilities and additional costs that might arise from reviewing or restructuring the councils PFI arrangements.

Insurance Reserve

This reserve holds monies to meet the potential cost of liability claims against the Council, including motor and third party injury, however, there is no commitment on the Council to pay the claim.

On Street Parking Reserve

It is a legal requirement to set aside surplus income from on street parking to be used in future years in accordance with the Road Traffic Regulation Act 1984.

DSG Reserve

This reserve holds the in-year surplus on the Dedicated Schools Grant. The cumulative deficit on the Dedicated Schools Grant is held separately in the Dedicated Schools Grant Adjustment Account (an unusable reserve) in accordance with legislation. See further details in Note 22 Unusable Reserves.

General Fund Contributions to Capital

This reserve holds monies to finance the capital programme.

NOTES TO THE CORE FINANCIAL STATEMENTS

10. Adjustments between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2022/23	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(2,635)							(2,635)	2,635	0
Depreciation and revaluation of Non Current Assets	(29,563)		(33,361)					(62,924)	62,924	0
Movement on Market Value of Investment Properties	(2,224)		42					(2,182)	2,182	0
Capital Grants and Contributions Applied	48,101		898					48,999	(48,999)	0
Capital Grants and Contributions Unapplied	(886)						886	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(15,067)							(15,067)	15,067	0
Holiday pay transferred to the Accumulated Absences Account	645							645	(645)	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(5,093)							(5,093)	5,093	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(59,889)		(13,649)					(73,538)	73,538	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	25,533		5,819					31,352	(31,352)	0
Statutory Provision for the Financing of Capital Investment	11,120		0					11,120	(11,120)	0
Capital expenditure charged in-year to the GF and HRA Balances	0		1,790					1,790	(1,790)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated in accordance with statute	11,760							11,760	(11,760)	0
Transfers to/(from) Major Repairs Reserves			20,763			(20,763)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						20,763		20,763	(20,763)	0
Capital Receipts in Year	247		11,311		(11,558)			0	0	0
Non-current Asset Disposals	(20,234)		(4,821)					(25,055)	25,055	0
Capital Receipts Financing of New Capital Expenditure					6,583			6,583	(6,583)	0
Adjustment for repayment of loans					(80)			(80)	80	0
	(38,185)	0	(11,208)	0	(5,055)	0	886	(53,562)	53,562	0

NOTES TO THE CORE FINANCIAL STATEMENTS

2021/22	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(2,411)							(2,411)	2,411	0
Depreciation and revaluation of Non Current Assets	(26,367)		19,176					(7,191)	7,191	0
Movement on Market Value of Investment Properties	2,383		133					2,516	(2,516)	0
Capital Grants and Contributions Applied	55,784		1,006					56,790	(56,790)	0
Capital Grants and Contributions Unapplied	(12,917)						12,917	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(15,432)							(15,432)	15,432	0
Holiday pay transferred to the Accumulated Absences Account	678							678	(678)	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	4,651							4,651	(4,651)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(59,227)		(13,088)					(72,315)	72,315	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	19,865		4,390					24,255	(24,255)	0
Statutory Provision for the Financing of Capital Investment	10,705		3702					14,407	(14,407)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,160)				1,160			0	0	0
Capital expenditure charged in-year to the GF and HRA Balances	596		3,191					3,787	(3,787)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated in accordance with statute	19,742							19,742	(19,742)	0
Transfers to/(from) Major Repairs Reserve			19,517			(19,517)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						22,014		22,014	(22,014)	0
Capital Receipts in Year	1,924		7,022		(8,946)			0	0	0
Non-current Asset Disposals	(53,356)		(4,152)					(57,508)	57,508	0
Capital Receipts Financing of New Capital Expenditure					3,814			3,814	(3,814)	0
Adjustment for repayment of loans					(122)			(122)	122	0
Transfer of deficit on the Dedicated Schools Grant to the Dedicated Schools Grant Adjustment Account	(2,158)							(2,158)	2,158	0
	(56,700)	0	40,897	0	(4,094)	2,497	12,917	(4,483)	4,483	0

NOTES TO THE CORE FINANCIAL STATEMENTS

11. Interest Payable and Receivable

Interest Payable and Similar Charges		
<u>2021/22</u>		<u>2022/23</u>
£000		£000
7,011	Interest on External Loans	7,772
6,476	PFI Schemes	4,686
277	Payments to HCC in respect of Transferred Debt	422
241	Other	429
986	Movement of impairment allowance & debt write-offs	2,234
<u>14,991</u>		<u>15,543</u>

Interest and Investment Income		
<u>2021/22</u>		<u>2022/23</u>
£000		£000
(1,114)	Investments	(2,265)
(4,613)	(Gain) /Loss on Financial Instruments	5,093
<u>(5,727)</u>		<u>2,828</u>

12. Property, Plant and Equipment (PPE)

PPE are shown at a current net book value of £1,596M (2021/22 £1,564M), an increase of £32M (2021/22 £36M increase). The basis of valuation is explained in more detail in Note 1r) (Accounting Policies). The values are shown as at 31 March 2023.

a) Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – based on replacement costs and useful lives of the main components. Useful lives range from 15 – 60 years.
- Other Land and Buildings – 30 to 70 years.
- Vehicles, Plant, Furniture & Equipment – 5 to 15 years.
- Infrastructure – 25 to 120 years.

b) Revaluations

The Council carries out a rolling programme that ensures that all PPE required to be measured at current value is revalued at least every five years and are reviewed yearly to ensure there are no material movements since the last valuation. All valuations were carried out by the Council's Valuations and Estates Team. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

The movement in PPE for both the current and previous year are shown below and comes about due to

NOTES TO THE CORE FINANCIAL STATEMENTS

changes to asset valuations, disposals, new acquisitions and enhancements. Movement in Infrastructure Assets is shown separately in note e).

c) Disposals

For 2022/23 there was an overall loss of £13.5M (2021/22 - £48.6M loss) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, mainly as a result of the transfer of schools to Academy or Foundation Trust status, offset by a £6.5M gain relating to the Housing Revenue Account.

d) Current Value

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

e) Infrastructure Assets

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The Net Book Value (NBV) of Infrastructure Assets at 31 March 2023 was £279.5M (£256.9M at 31 March 2022). Movements in the NBV are shown below.

Movement on Infrastructure Assets	<u>2021/22</u>	<u>2022/23</u>
	£000	£000
Balance at start of year	243,647	256,929
Additions	19,451	29,278
Depreciation in Year	(6,169)	(6,669)
Balance at End of Year	<u>256,929</u>	<u>279,538</u>

Reconciling Note for PPE	<u>2021/22</u>	<u>2022/23</u>
	£000	£000
Infrastructure Assets	256,929	279,538
Other PPE Assets	1,306,864	1,316,637
Balance at End of Year	<u>1,563,793</u>	<u>1,596,175</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

The authority has determined in accordance with Regulation [30M England] of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be de-recognised for infrastructure assets when there is replacement expenditure is nil.

Movement in Property, Plant & Equipment (PPE)								
	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2022	773,194	469,170	65,369	2,889	1,442	50,119	1,362,183	79,438
Adjustment to Previous Year Charges	(19,153)	0	0	0	0	0	(19,153)	0
	754,041	469,170	65,369	2,889	1,442	50,119	1,343,030	79,438
Additions	32,804	3,719	9,204	0	0	4,227	49,954	0
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	30,031	0	0	0	0	30,031	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(32,804)	(5,162)	0	0	0	0	(37,966)	11,940
Derecognition-Disposals	(4,820)	(20,229)	(628)	0	0	0	(25,677)	
Reclassified outside PPE	0	0	0	0	0	0	0	
Other Reclassifications	4,343	120	0	(120)	0	(4,343)	0	
At 31 March 2023	753,564	477,649	73,945	2,769	1,442	50,003	1,359,372	91,378
Accumulated Depreciation and Impairment								
At 1 April 2022	(19,153)	(9,909)	(25,876)	(349)	(32)	0	(55,319)	(10,770)
Adjustment to Previous Year Charges	19,153						19,153	0
	0	(9,909)	(25,876)	(349)	(32)	0	(36,166)	(10,770)
Depreciation in Year	(20,308)	(15,325)	(4,850)	(17)	(14)	0	(40,514)	(3,635)
Impairment in Year	0	0	0	0	0	0	0	
Written out to the Revaluation Reserve	0	10,963	0	0	0	0	10,963	
Written out to the (Surplus)/ Deficit on the Provision of Services	20,308	1,917	0	0	0	0	22,225	1,922
Derecognition-Disposals	0	294	463	0	0	0	757	
Other Reclassifications	0	(5)	0	5	0	0	0	
At 31 March 2023	0	(12,065)	(30,263)	(361)	(46)	0	(42,735)	(12,483)
Net Book Value								
At 31 March 2023	753,564	465,584	43,682	2,408	1,396	50,003	1,316,637	78,895
At 31 March 2022	754,041	459,261	39,493	2,540	1,410	50,119	1,306,864	68,668

NOTES TO THE CORE FINANCIAL STATEMENTS

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at Historic Cost			43,682	279,538	2,408		50,003	375,631
Valued at Fair Value in:								
2022/23	753,564	388,342				0		1,141,906
2021/22		23,555				0		23,555
2020/21		7,760				0		7,760
2019/20		8,088				1,165		9,253
2018/19		37,220				231		37,451
Deminimus		619				0		619
Net Book Value as at 31 March 2023	753,564	465,584	43,682	279,538	2,408	1,396	50,003	1,596,175

Movement in Property, Plant & Equipment (PPE) 2021/22								
	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2021	702,965	518,766	58,944	3,897	1,442	53,276	1,339,290	79,439
Adjustment to Previous Year Charges	0	0	0	0	0	0	0	0
	702,965	518,766	58,944	3,897	1,442	53,276	1,339,290	79,439
Additions	26,546	3,698	6,438	0	0	27,295	63,977	0
Donations	0	0	0	0	0	0	0	0
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	1,580	0	0	0	0	1,580	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	17,383	(2,860)	0	0	0	0	14,523	(1)
Derecognition-Disposals	(4,152)	(53,022)	(13)	0	0	0	(57,187)	0
Derecognitions- Fully Depreciated	0	0	0	0	0	0	0	0
Reclassified outside PPE	0	0	0	0	0	0	0	0
Other Reclassifications	30,452	1,008	0	(1,008)	0	(30,452)	0	0
At 31 March 2022	773,194	469,170	65,369	2,889	1,442	50,119	1,362,183	79,438
Accumulated Depreciation and Impairment								
At 1 April 2021	(21,311)	(12,086)	(21,275)	(331)	(18)	0	(55,021)	(9,056)
Adjustment to Previous Year Charges							0	0
	(21,311)	(12,086)	(21,275)	(331)	(18)	0	(55,021)	(9,056)
Depreciation in Year	(19,153)	(16,961)	(4,614)	(18)	(14)	0	(40,760)	(3,550)
Impairment in Year	0	0	0	0	0	0	0	0
Written out to the Revaluation Reserve	0	14,091	0	0	0	0	14,091	0
Written out to the (Surplus)/ Deficit on the Provision of Services	21,311	3,904	0	0	0	0	25,215	1,836
Derecognition-Disposals	0	1,143	13	0	0	0	1,156	0
At 31 March 2022	(19,153)	(9,909)	(25,876)	(349)	(32)	0	(55,319)	(10,770)
Net Book Value								
At 31 March 2022	754,041	459,261	39,493	2,540	1,410	50,119	1,306,864	68,668
At 31 March 2021	681,654	506,680	37,669	3,566	1,424	53,276	1,284,269	70,383

NOTES TO THE CORE FINANCIAL STATEMENTS

Capital Commitments

At 31 March 2023, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2022/23 and future years budgeted to cost £77.5M. Similar commitments at 31 March 2022 were £51.1M. The major commitments are:

	<u>2021/22</u>	<u>2022/23</u>
	<u>£000</u>	<u>£000</u>
HRA - Supporting Communities	153	205
HRA - Improving Quality of Homes	970	5,091
HRA - Supporting Independent Living	4,813	7,149
HRA - Making Homes Safe	20,819	33,903
HRA - Making Homes Energy Efficient	2,645	8,028
Sholing Technical College Renovation	1,015	0
Southampton All Through School	8,424	2,138
Chamberlayne School	0	2,267
School Condition Work	0	2,271
Newland Hearing Centre	0	1,426
Desktop Refresh	271	530
Electric & Fleet Vehicles	2,282	4,036
SEND School Review	667	0
Corporate Council Buildings	0	1,145
Public Sector Decarbonisation Scheme	429	799
Heritage Asset Investment	1,505	1,177
Outdoor Sports Centre Improvements	947	239
Future Transport Zone	3,252	5,084
Transforming Cities Fund	357	0
Other Various Minor Commitments	2,551	2,011
Total	<u>51,100</u>	<u>77,499</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

13. Heritage Assets

As set out in our Accounting Policies, Note 11) (Accounting Policies), the Council's Heritage Assets are predominantly held in the Council's Museums.

Reconciliation of the Carrying Value of Heritage Assets Held by the Council			
	Works of Art	Historic Buildings and Ancient Monuments	Total Assets
	£000	£000	£000
Cost or Valuation			
01 April 2021	190,000	278	190,278
Additions		1,025	1,025
Revaluations			0
Adj for depreciation previously written out			0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services			0
31 March 2022	190,000	1,303	191,303
Accumulated Depreciation and Impairment			
01 April 2021	0	(29)	(29)
31 March 2022	0	(29)	(29)
Net Book Value			
31 March 2022	190,000	1,274	191,274
31 March 2021	190,000	249	190,249
Reconciliation of the Carrying Value of Heritage Assets Held by the Council			
	Works of Art	Historic Buildings and Ancient Monuments	Total Assets
	£000	£000	£000
Cost or Valuation			
01 April 2022	190,000	1,303	191,303
Additions		646	646
Adj for depreciation previously written out			0
31 March 2023	190,000	1,949	191,949
Accumulated Depreciation and Impairment			
01 April 2022	0	(29)	(29)
Depreciation		0	0
31 March 2023	0	(29)	(29)
Net Book Value			
31 March 2023	190,000	1,920	191,920
31 March 2022	190,000	1,274	191,274

NOTES TO THE CORE FINANCIAL STATEMENTS

14. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

<u>2021/22</u>		<u>2022/23</u>
£000		£000
(6,757)	Rental Income	(6,890)
<u>507</u>	Operating Expenditure	<u>521</u>
(6,250)	Net (Income) / Expenditure	(6,369)
	Net (Gains) / Losses from fair value	
(2,516)	adjustments	2,182
<u>(8,766)</u>	Total Net (Income) / Expenditure	<u>(4,187)</u>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	<u>2021/22</u>	<u>2022/23</u>
	£000	£000
Balance at start of year	113,098	114,136
Additions:		
Purchases	0	544
Subsequent Expenditure	0	0
Disposals	(1,478)	(134)
Net gains / (losses) from fair value adjustments	<u>2,516</u>	<u>(2,182)</u>
Balance at End of Year	<u>114,136</u>	<u>112,364</u>

The fair value hierarchy is based on the relative reliability and relevance of the information used in the valuation. Investment properties are valued on an income approach that is based on capitalisation of current rental income and taking into account anticipated uplifts at the next rent review, lease expiry or break option. This uplift and the discount rate are derived from rates implied by market transactions of other property. The transactions from which the uplifts and discount rates are derived are not sufficiently similar for direct comparison to be made and adjustments have to be made to the observable data of comparable transactions. We therefore take the view that the inputs are unobservable i.e. level 3 for the purposes of fair value hierarchy classification.

NOTES TO THE CORE FINANCIAL STATEMENTS

15. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

Expenditure on intangible assets to date generally relates to the purchase of software. The capitalised expenditure will be depreciated over the useful life of each asset and is charged to service line(s) in the Comprehensive Income and Expenditure Statement (from the year following acquisition).

	Purchased Software	
	31 March 2022	31 March 2023
	£000	£000
Gross carrying amount	15,121	16,854
Derecognition of Assets fully amortised	<u>(766)</u>	<u>(2,527)</u>
	14,355	14,327
Accumulated amortisation	<u>(5,635)</u>	<u>(5,519)</u>
Net Carrying Amount at Start of the Year	8,720	8,808
Purchases	2,499	3,328
Amortisation for the period	<u>(2,411)</u>	<u>(2,635)</u>
Net Carrying Amount at End of the Year	8,808	9,501

16. Assets Held for Sale (AHFS)

As at 31 March 2023 there are no surplus assets that have been marketed for sale and are expected to be disposed of within the next 12 months and there were none in the preceding year.

NOTES TO THE CORE FINANCIAL STATEMENTS

17. Financial Instruments

a) Financial Instruments Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and Government grants, do not give rise to financial instruments.

The term 'financial instrument' covers both financial assets and financial liabilities. These range from straight forward trade receivables and trade payables to more complex transactions such as financial guarantees, derivatives and embedded derivatives. The Council's borrowing, service concession arrangements (PFI and similar contracts), and investment transactions are classified as financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council. It can be represented by a contractual obligation to deliver cash or financial assets, or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

The majority of the Council's financial liabilities held during the year are measured at amortised cost and comprised:

- Long-term loans from the Public Works Loan Board (PWLB) and commercial lenders,
- Short-term loans from other local authorities,
- Overdraft with Lloyds bank,
- Private Finance Initiative contracts detailed in Note 32 (PFI and Similar Contracts), and
- Trade payables for goods and services received.

Transferred debt from Hampshire County Council is not considered to be a financial instrument, as it arises from local government reorganisation rather than a contractual agreement.

Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council. It is represented by cash equity instruments or a contractual right to receive cash or another financial asset or an obligation to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are held under the following classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows) comprising:
 - cash in hand,
 - bank current and deposit accounts,
 - loans to other local authorities,
 - covered bonds issued by banks and building societies,
 - bonds issued by multilateral development banks and large companies,
 - loans made for service purposes,
 - trade receivables for goods and services provided.
- Fair value through profit and loss (all other financial assets) comprising:
 - money market funds managed by fund managers,
 - pooled property funds managed by CCLA fund managers,
 - equity investments

Financial assets held at amortised cost are shown net of a loss allowance reflecting the likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

b) Financial Instruments Balances

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following tables:

NOTES TO THE CORE FINANCIAL STATEMENTS

Financial Liabilities	Long Term		Short Term		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2022	2023	2022	2023	2022	2023
	£000	£000	£000	£000	£000	£000
<i>Loans at amortised cost:</i>						
- Principal sum borrowed	(239,197)	(278,597)	(16,100)	(24,600)	(255,297)	(303,197)
- Accrued interest			(727)	(1,174)	(727)	(1,174)
Total Borrowing	(239,197)	(278,597)	(16,827)	(25,774)	(256,024)	(304,371)
<i>Loans at amortised cost:</i>						
- Bank Overdraft			(6,654)	(3,804)	(6,654)	(3,804)
Total Cash Overdrawn	0	0	(6,654)	(3,804)	(6,654)	(3,804)
<i>Liabilities at amortised cost:</i>						
- PFI arrangements	(44,375)	(41,081)			(44,375)	(41,081)
- Other long-term creditors	(37)	(37)			(37)	(37)
Total Long-term Creditors	(44,412)	(41,118)	0	0	(44,412)	(41,118)
<i>Liabilities at amortised cost:</i>						
- PFI arrangements			(3,144)	(3,294)	(3,144)	(3,294)
- Trade payables			(31,506)	(33,236)	(31,506)	(33,236)
Included in Creditors	0	0	(34,650)	(36,530)	(34,650)	(36,530)
Total Financial Liabilities	(283,609)	(319,715)	(58,131)	(66,108)	(341,740)	(385,823)

Financial Assets	Long Term		Short Term		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2022	2023	2022	2023	2022	2023
	£000	£000	£000	£000	£000	£000
<i>At amortised cost</i>						
- Principal	1,028	1,026	24,410	11,060	25,438	12,086
- Accrued interest			53	53	53	53
<i>At fair value through profit & loss</i>						
- Principal	27,000	27,000			27,000	27,000
- Accrued interest	0	0	253	281	253	281
- Fair value adjustments	3,893	(1,199)			3,893	(1,199)
Total Investments	31,921	26,827	24,716	11,394	56,637	38,221
<i>Loans and Receivables</i>						
<i>At amortised cost</i>						
- Principal			772	144	772	144
<i>At fair value through profit & loss</i>						
- Principal			53,730	15,490	53,730	15,490
- Accrued interest						0
Total Cash and Cash Equivalents	0	0	54,502	15,634	54,502	15,634
<i>At amortised costs</i>						
- Trade receivables			28,616	29,393	28,616	29,393
- Loans made for service purposes	3,495	3,415	0	0	3,495	3,415
Included in Debtors	3,495	3,415	28,616	29,393	32,111	32,808
Total Financial Assets	35,416	30,242	107,834	56,421	143,250	86,663

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current investments'. This includes accrued interest on long term liabilities and investments that is payable/receivable in 2023/24.

c) Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability

NOTES TO THE CORE FINANCIAL STATEMENTS

simultaneously. The Council had no financial assets or liabilities subject to an enforceable master netting arrangement or similar agreement.

d) Financial Instruments – Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

	2021/22	2022/23				
		Total £000	Financial Liabilities	Financial Assets		Total £000
			Amortised cost £000	Amortised cost £000	Fair Value through Profit & Loss £000	
Interest expense	14,043	13,309			13,309	
Gains/losses on derecognition	(38)	0			0	
Impairment Losses	986		2,234		2,234	
Interest Payable and Similar Charges	14,991	13,309	2,234	0	15,543	
Interest income	(1,114)		(1,267)	(998)	(2,265)	
Gains/losses on derecognition	(4,613)			5,093	5,093	
Interest and Investment Income	(5,727)	0	(1,267)	4,095	2,828	
Net Gain / (Loss) for the Year	9,264	13,309	967	4,095	18,371	

e) Financial Instruments – Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price.

The fair values of financial instruments classified at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2023, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2023.
- The fair values of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- **Level 1** – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- **Level 2** – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- **Level 3** – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

NOTES TO THE CORE FINANCIAL STATEMENTS

The fair value of financial liabilities held at amortised cost is lower than their balance sheet carrying amount. This is because the authority's portfolio of loans includes a number of loans where the interest rate payable is lower than the current rates available for similar loans as at the Balance Sheet date.

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2022</u>	<u>2022</u>			<u>2023</u>	<u>2023</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
Financial Liabilities held at amortised cost					
(246,297)	(264,856)	Public Works Loans	2	(289,197)	(236,519)
(9,000)	(11,746)	LOBO Loans	2	(9,000)	(9,704)
(47,519)	(70,211)	PF/Finance Lease Liabilities	2	(44,375)	(56,768)
(302,816)	(346,813)			(342,572)	(302,991)
Liabilities for which Fair Value is not disclosed*					
(37)		Other Long Term Creditors		(37)	
(727)		Short Term borrowing		(6,174)	
(6,654)		Bank Overdraft		(3,804)	
(31,506)		Trade Payables (Creditors)		(33,236)	
(38,924)				(43,251)	
(341,740)		Total Financial Liabilities		(385,823)	

* The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than the balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2022</u>	<u>2022</u>			<u>2023</u>	<u>2023</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
Financial Assets held at Fair Value through P&L					
53,730	53,730	Money Market Funds	1	15,490	15,490
30,894	30,894	Property Funds	2	25,801	25,801
84,624	84,624			41,291	41,291
Financial Assets held at Amortised Costs					
1,008	1,160	Corporate, Covered and Government Bonds	1	1,006	1,074
1,008	1,160			1,006	1,074
Assets for which Fair Value is not disclosed**					
<i>Recorded on balance sheet as:</i>					
3,495		Long Term Debtors		3,415	
24,715		Short Term investments		11,394	
20		Shares in unlisted companies		20	
772		Cash and Cash Equivalents		144	
28,616		Trade Receivables (Debtors)		29,393	
0		Other Debtors		0	
57,618				44,366	
143,250		Total Financial Assets		86,663	

NOTES TO THE CORE FINANCIAL STATEMENTS

***The Council holds shares in the UK Municipal Bond Agency which are carried at cost of £20k because their fair value cannot be measured reliably. This is because the company has no established trading history and there are no similar companies whose shares are traded, and which might provide comparable market data.*

f) Financial Instruments – Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Department of Levelling Up, Housing and Communities (formerly Ministry of Housing, Communities and Local Government) Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy, together with its Treasury Management Practices seek to achieve a suitable balance between risk and return or costs.

The main risks covered are:

- **Credit Risk** – The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the other Council.
- **Liquidity Risk** – The possibility that the Council might not have the cash available to make contracted payments on time.
- **Market Risk** – The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

g) Credit Risk

Treasury Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK Government and other local authorities and organisations without credit ratings upon which the Council will receive independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A maximum limit of £10M can be invested with a single counterparty (other than the UK Government) subject to this being no more than 10% of total investments. For unsecured investments in banks, building societies and companies, a smaller limit of £5M applies and in the case of money market funds being no more than 0.5% of any one individual fund. The Council also sets a total group investment limit for institutions that are part of the same banking group. A limit is also set for investments which can be invested for periods over one year.

The Council has no historical experience of counterparty default but its exposure to credit risk in relation to its investments of £53.9M (2021/22 £111.1M) cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2023 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement, approved by Governance Committee on 14 February 2022. The Treasury Strategy can be seen as Item 35 on the Agenda found via the following web link:

[Treasury Management Strategy and Prudential Limits 2022/23 to 2025/26](#)

NOTES TO THE CORE FINANCIAL STATEMENTS

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2023 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

Credit Rating	Long Term		Short Term	
	2022	2023	2022	2023
	£000	£000	£000	£000
AAA	1,008	1,006	52	53
AA+			0	0
AA			24,410	0
AA-			0	11,060
A+			46,750	10,080
A			7,753	5,554
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	30,893	25,801	253	281
Total Investments	31,921	26,827	79,218	27,028

* Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money. For risks relating to pooled funds see "Price Risk" below.

The above analysis shows that all deposits outstanding as at 31 March 2023 met the Council's minimum credit rating criteria of A or above.

Deposits are restricted by the council's treasury strategy to institutions with high credit ratings as specified above and will be recalled if these fall below the Council's minimum credit rating criteria. The 12 month expected credit losses have been calculated applying risk factors provided by the Council's treasury management advisors and the calculated loss allowance relating to treasury investments at 31 March 2023 (and 31 March 2022) falls below the Council's de-minimis level of £0.01M so no offset was made.

Trade Receivables

The Council's maximum exposure to credit risk is set out below. As per the Code requirements, this only includes debtors that have arisen as a result of trading activities. Balances and transactions arising from statutory functions, (e.g. council tax, business rates), are excluded as they have not arisen from contractual trading activities.

Trade Debtors and Impairment Allowance			
	<u>Outstanding</u>	<u>Outstanding</u>	
	<u>31 March 2022</u>	<u>31 March 2023</u>	
	£000	£000	
Trade Debtors	28,616	29,393	
Trade Debtors Impairment Allowance	(7,579)	(8,659)	

NOTES TO THE CORE FINANCIAL STATEMENTS

Trade debtors are not subject to internal credit rating and have been collectively assessed in the following groupings for the purposes of calculating expected credit losses:

- Adult Social Care clients (£2.126M)
- Housing tenants (£6.120M)
- Other service recipients (£0.412M)

Expected credit losses are calculated using provision matrices based on historical data for defaults adjusted for current and forecast economic conditions.

Debt write-off is considered when normal recovery procedures have been unable to secure payment. Prior to write-off, all possible action will have been taken to secure the debt, however the extent to which it is pursued is dependent on the amount of the debt and the financial circumstances of the debtor.

The following analysis summarises the Council's trade debtors by due date.

<u>2021/22</u> £000		<u>2022/23</u> £000
	<u>Trade debtors, analysed by age</u>	
7,732	Less than two months	8,901
6,963	Two to six months	6,289
4,631	Six months to one year	4,966
9,290	More than one year	9,237
<hr/> 28,616 <hr/>		<hr/> 29,393 <hr/>

h) Liquidity Risk

The Council has ready access to borrowing at favourable rates from the PWLB and other local authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates, this is managed by maintaining a spread of fixed rate loans and ensuring that no more than 50% of the Council's borrowing matures in any one financial year.

The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The maturity analysis of the principal borrowed as at 31 March 2023 was as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Outstanding</u> 31 March 2022	<u>% of Total</u> Portfolio	Total Financial Liabilities	<u>Outstanding</u> 31 March 2023	<u>% of Total</u> Portfolio
£000	%		£000	%
(246,297)	72	Public Works Loan Board	(289,197)	75
(9,000)	3	Other Financial Institutions (borrowing)	(14,000)	3
(31,506)	9	Trade Payables	(33,236)	9
(54,937)	16	Other Financial Institutions	(49,390)	13
(341,740)	100		(385,823)	100
Analysis of Loans by Maturity				
(49,130)	14	Less than 1 Year	(57,108)	15
(10,394)	3	Between 1 and 2 years	(14,576)	4
(31,972)	9	Between 2 and 5 years	(42,256)	11
(58,089)	17	Between 5 and 10 years	(74,119)	19
(43,308)	13	Between 10 and 20 years	(38,917)	10
(139,847)	41	Between 20 and 40 years	(149,847)	39
0	0	Over 40	0	0
(9,000)	3	Uncertain Date**	(9,000)	2
(341,740)	100		(385,823)	100

*Please note that the authority has £9M of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain, however it is treated as short term within the accounts because the loans could be called within the year.

The Council's long term liabilities (which include borrowing detailed in the previous table) are shown in the table below:

Loans and Other Long term Liabilities Outstanding (Nominal Value)		
	<u>Outstanding</u> 31 March 2022	<u>Outstanding</u> 31 March 2023
Source	£000	£000
Public Works Loan Board	(246,297)	(289,197)
Market Debt	(9,000)	(9,000)
Temporary Borrowing	0	(5,000)
PFI Liabilities	(47,519)	(44,375)
Other long-term Creditors	(37)	(37)
Total	(302,853)	(347,609)

NOTES TO THE CORE FINANCIAL STATEMENTS

i) Market Risk

Interest Rate Risk

The Council is exposed to risks in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest income credited will rise
- Investments at fixed rates – the fair value of the assets will fall

Investments measured at amortised costs and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services.

Movements in the fair value of fixed rate investments measured at fair value will be reflected in the Surplus or Deficit on the Provision of Services.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2023 £326.1M (111%) (2021/22 £268.1M (140%)) of net principal borrowed (i.e. debt net of investments) was at fixed rates and £32.4M (2021/22 £76.0M) net investments exposed to variable rates.

The table below shows that the risk to the provision of services of changes in interest rates. This reflects the requirement under IFRS 9 to show the impact of a decrease in the fair value of pooled investment funds and that the Council has taken on additional risk by increasing the amount it intends to borrow short term in place of taking long term fixed rate debt. Even if the increase in short term borrowing rate was to materialise it would still be cheaper than borrowing the money long term.

If interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

2021/22		2022/23	
£000		£000	
1,447	Increase in interest payable on variable rate borrowings	752	
(500)	Increase in interest payable on variable rate investments	(200)	
1,462	Decrease in fair value of investments held at FVPL (assumes 5%)	1,204	
<u>2,409</u>	Impact on the Provision of Services (Surplus) / Deficit	<u>1,756</u>	
267	Share of overall impact debited/credited to HRA	308	
(48,474)	Decrease in fair value of fixed rate borrowings/liabilities held at amortised cost (<i>no impact on Comprehensive Income and Expenditure</i>)	(37,580)	

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

The Council has £9M (2022: £9M) of “Lender’s option, borrower’s option” (LOBO) loans with maturity dates between 2035 and 2042 where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. The likelihood of the lender increasing the rate has increased with the rise in market interest rates during the year.

Price Risk

The market prices of the Council’s fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed

NOTES TO THE CORE FINANCIAL STATEMENTS

alongside interest rate risk as described below.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments. As at 31 March 2023 the Council had £27M (2021/22 £27M) invested in the Local Authority Property Fund which was valued with a reduction in fair value of £5.093M (2021/22 £4.613M increase), taking the fair value from £30.89M to £25.80M. A 5% fall in commercial property prices would result in a £1.20M (2021/22 £1.46M) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

18. Debtors

The Long Term Debtors balance represents loans and advances due to the Council as at 31 March 2023.

<u>31 March</u> <u>2022</u> £000		<u>31 March</u> <u>2023</u> £000
3,495	Housing Improvement Loans	3,415
<u>3,495</u>		<u>3,415</u>

The Short Term Debtors balance represents the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2023.

<u>31 March</u> <u>2022</u> £000	<u>Debtors</u>	<u>31 March</u> <u>2023</u> £000
8,948	Central Government	9,524
3,139	Other Local Authorities	4,421
3,882	NHS Bodies	2,245
65,975	Other Entities and Individuals	67,963
(28,804)	Debtors Impairment Allowance	(28,902)
<u>2</u>	Public Corporations and Trading Funds	<u>1</u>
<u>53,142</u>	Total Debtors	<u>55,252</u>

19. Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and will also include bank overdrafts that are repayable on demand and that are integral to the authority's cash management. Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Although the balance shown below suggests that the bank accounts were overdrawn by £3.8M (2021/22 £6.7M overdrawn), the Council's actual bank account balance at the Bank was a credit balance of £0.6M at 31 March 2023 (£0.7M credit at 31 March 2022). The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go overdrawn because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can withdraw from Money Market Funds and Call Accounts, or access temporary borrowing on the Money Markets if required.

NOTES TO THE CORE FINANCIAL STATEMENTS

The net balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

<u>31 March</u> <u>2022</u> £000		<u>31 March</u> <u>2023</u> £000
(6,654)	Bank Accounts	(3,804)
(6,654)		(3,804)
53,730	Money Market Funds	15,490
670	Call Accounts	0
102	Petty Cash	144
54,502		15,634
47,848		11,830

20. Creditors

The Creditors balance represents the estimated outstanding liabilities as at 31 March 2023.

The creditors balance with central government at 31 March 2022 was exceptionally high as it included £15.8M for Council Tax Energy Rebate Scheme grants, £13.5M for COVID grants to support businesses and £27.5M for S31 business rates reliefs grants. The total of equivalent creditors for these grants at 31 March 2023 was £9.8M. The amount owed to central government at 31 March 2023 for its share of the business rates Collection Fund was £15.0M, compared with £3.2M at 31 March 2022.

<u>31 March</u> <u>2022</u> £000	<u>Creditors</u>	<u>31 March</u> <u>2023</u> £000
75,295	Central Government	39,637
3,888	Other Local Authorities	4,333
4,846	NHS Bodies	3,276
56,457	Other Entities and Individuals	58,738
140,486	Total Creditors	105,984

21. Provisions

Provisions are amounts set aside each year for specific future expenses, the value of which cannot yet be accurately determined. The provisions, as shown in the balance sheet, are analysed in the following table:

	<u>Balance at 31</u> <u>March 2022</u> £000	<u>Additional</u> <u>Provisions Made in Year</u> £000	<u>Amounts</u> <u>Used in Year</u> £000	<u>Unused</u> <u>amounts</u> <u>reversed in</u> <u>year</u> £000	<u>Balance at 31</u> <u>March 2023</u> £000
<u>General Fund</u>					
NDR Appeals Provision	10,185	10,600	(11,638)	(3,890)	5,257
General Insurance Funds	3,014		(614)		2,400
Other Provisions	325		(149)		176
Total	13,524	10,600	(12,401)	(3,890)	7,833

NOTES TO THE CORE FINANCIAL STATEMENTS

The Provisions are estimated to be utilised as follows:

	Short Term			Total Long Term	Balance at 31 March 2023
	Due within 1 Year	Due between 2 to 5 years	Over 5 years		
	£000	£000	£000		
General Fund					
NDR Appeals Provision	4,054	1,203	0	1,203	5,257
General Insurance Funds	633	1,767	0	1,767	2,400
Other Provisions	176	0	0	0	176
Total	4,863	2,970	0	2,970	7,833

a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in year and earlier years and other Rateable Value list amendments. Therefore, the Council's share of the provision (49% in 2022/23) has been recognised as the best estimate of the amount that businesses have been overcharged up to 31 March 2023.

The estimate is based on an assessment by an external advisor of the likely success of the appeals/checks/challenge outstanding on the Valuation Office Agency (VOA) list and projected appeals, adjusted for local knowledge. 31 March 2023 was the deadline for lodging checks to rateable values for the 2017 rating list. The estimated losses from claims is lower than previously estimated resulting in a reduction in the provision.

b) Insurance Provisions

The Insurance Funds are used to meet claims that fall within the policy excess or deductible, i.e. where the Council has taken advantage of 'self-insurance'. All liability and property claims settled below £125,000 and £40,000 respectively are met from the internal insurance funds together with all motor claims below £25,000. Contributions to the fund are reviewed annually based on factors such as exposure, (e.g. employee numbers, nature of operations, sums insured, vehicle numbers), claims experience and outstanding liabilities.

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2023 amounted to £2.4M (2021/22 £3.0M). Additionally, a further £1.5M (2021/22 £1.9M) is held in an insurance reserve to meet the potential cost of liability claims, including motor and third party injury, for which there is no commitment on the Council to pay the claim. The merits of each claim are investigated and claims will only be considered where it is deemed that the Council has been negligent or is at fault and is legally liable to pay compensation. The provision figure against an individual claim is reviewed periodically by the claims handler when further information becomes available regarding the circumstances of the claim, extent of injury, value of loss etc. The expected timing of any resulting transfer of economic benefit, where it is deemed that compensation should be paid, is impossible to state and it is dependent on the claims settlement process and ultimately the decision of the Courts. The outstanding claims provision was reduced during 2022/23 following an external actuarial review of the self-insurance arrangements.

The fund position is fluid which reflects the ongoing process of claims being settled and new claims being received. The insurance funds are however monitored on a monthly basis to ensure that overall provision remains adequate. In addition, consideration is taken of any external factors that might affect the adequacy of the Council's self-insurance fund for example changes to the discount rate which is the rate used to calculate personal injury compensation awards and general claims inflation.

NOTES TO THE CORE FINANCIAL STATEMENTS

c) Other Provisions

All other provisions are not material.

22. Unusable Reserves

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost,
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

<u>2021/22</u> <u>£000</u>		<u>2022/23</u> <u>£000</u>
(414,815)	Balance Brought Forward	(408,605)
(19,909)	Upward revaluations of assets	(51,070)
4,238	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	10,076
(15,671)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(40,994)
6,102	Difference between fair value depreciation and historical cost depreciation	5,628
15,779	Accumulated Revaluations on Disposals	8,723
<u>(408,605)</u>	Balance Carried Forward	<u>(435,248)</u>

b) Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 10 (Adjustments between Accounting Basis and Funding Basis Under Regulations) provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2021/22</u>		<u>2022/23</u>
£000		£000
(922,500)	Balance Brought Forward	(965,045)
	Capital Financing	
(3,814)	Usable Capital Receipts	(6,583)
(56,790)	Capital Grants & Contributions	(48,999)
(22,014)	HRA Financing from the Major Repairs Reserve	(20,763)
(3,787)	Revenue Contributions	(1,790)
	Other Movements	
15,432	Revenue Expenditure Funded from Capital under Statute	15,067
	Net gains/losses from fair value adjustments on Investment	
(2,516)	Properties	2,182
2,411	Amortisation of Intangibles	2,635
7,191	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	62,924
57,508	Disposals	25,055
(6,102)	Historic Cost Depreciation Adjustment	(5,628)
(15,779)	Accumulated Revaluations on Disposals	(8,723)
(14,407)	Provision for the Financing of Capital Investment	(11,120)
122	Other adjustments	80
(965,045)	Balance Carried Forward	(960,708)

c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them.

The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<u>2021/22</u>		<u>2022/23</u>
£000		£000
586,719	Balance Brought Forward	423,745
(211,034)	Remeasurement of the net defined benefit liability/(asset)	(367,877)
72,315	Reversal of items relating to retirement benefits debited or credited to the Surplus or deficit on the Provision of Services in the comprehensive Income and Expenditure Statement	73,538
(24,255)	Employer's pension contributions and direct payments to pensioners payable in the year.	(31,352)
423,745	Balance Carried Forward	98,054

NOTES TO THE CORE FINANCIAL STATEMENTS

d) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and business rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

The large difference for business rates for 2022/23 relates to the timing difference between the reduction in the NDR Appeals Provision and its impact on the Collection Fund surplus and when this surplus is recognised in the General Fund. For 2021/22 timing differences arose between the additional business rates reliefs given to support particular business sectors during the pandemic and when the income foregone was reflected in the General Fund.

<u>2021/22</u>		<u>2022/23</u>
£000		£000
25,790	Balance Brought Forward	6,048
(3,336)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	3,093
(16,406)	Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	(14,853)
<u>6,048</u>	Balance Carried Forward	<u>(5,712)</u>

e) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences for staff, earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account. For 2021/22 the accrual included annual leave carried forward for non-teaching staff because carried forward leave balances were higher than normal due to the pandemic. For 2022/23 leave carried forward for non-teaching staff is not considered to be material and the accrual only reflects untaken leave entitlement for teaching staff.

<u>2021/22</u>		<u>2022/23</u>
£000		£000
3,905	Balance Brought Forward	3,227
(3,905)	Settlement or cancellation of accrual made at the end of the preceding year	(3,227)
<u>3,227</u>	Amounts accrued at the end of the current year	<u>2,582</u>
<u>3,227</u>	Balance Carried Forward	<u>2,582</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

f) Dedicated Schools Grant Adjustment Account

Regulations effective from 1 April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for each of the financial years 2020/21 to 2025/26 it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account was created for that purpose. For 2022/23 there was a DSG in-year surplus and this has been transferred into the DSG Reserve (see Note 9 Transfers to/from Revenue Reserves).

Further details on the deployment of DSG are provided in Note 28.

<u>2021/22</u>		<u>2022/23</u>
	£000	£000
8,934	Balance Brought Forward	11,092
2,158	Reversal of the deficit on the Dedicated Schools Grant within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	0
11,092	Balance Carried Forward	11,092

g) Pooled Fund Adjustment Account

This account holds fair value gains and losses on pooled investment funds (non-capital) which are not recognised in the General Fund in accordance with a government issued statutory override. The statutory override was initially in place until 31 March 2023 and has been extended to 31 March 2025.

<u>2021/22</u>		<u>2022/23</u>
	£000	£000
719	Balance Brought Forward	(3,894)
719		(3,894)
(4,613)	(Upward) / Downward Revaluation of Investments	5,093
	Downward Revaluation of Investments not charged to the Surplus/ Deficit on the Provision of Service	
(3,894)	Balance Carried Forward	1,199

NOTES TO THE CORE FINANCIAL STATEMENTS

23. Notes to Cash Flow Statement

a) Reconciliation of Net Surplus or (Deficit) on the Provision of Services to Net Cash Flows from Operating Activities

<u>2021/22</u>		<u>2022/23</u>
£000		£000
(47,538)	Net Surplus or (Deficit) on the Provision of Services	(97,153)
	Adjust net surplus or deficit on the provision of services for non cash movements	
46,929	Depreciation	47,183
(39,738)	Movement on assets charged to revenue	15,741
2,411	Amortisation	2,635
(4,613)	Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss	5,093
61	Increase/(Decrease) in Interest Creditors	447
9,039	Increase/(Decrease) in Creditors	(45,149)
130	(Increase)/Decrease in Interest and Dividend Debtors	(27)
496	(Increase)/Decrease in Debtors	(1,341)
182	(Increase)/Decrease in Inventories	86
48,060	Pension Liability	42,186
2,205	Contributions to/(from) Provisions	(5,691)
57,508	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	25,055
(2,516)	Movement in Investment Property Values	2,182
(8)	Other Items	0
120,146		88,400
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(43,873)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(48,114)
(8,946)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(11,558)
(122)	Repayment of loans - transfer to the Capital Receipts Reserve upon receipt of cash	(80)
(101)	Allowable deduction arising from disposal	(111)
(53,042)		(59,863)
19,566	Net Cash Flows from Operating Activities	(68,616)

b) Operating Activities – Interest

<u>2021/22</u>		<u>2022/23</u>
£000		£000
	Operating activities within the cashflow statement include the following cash flows relating to interest	
5,856	Interest Received	(2,854)
(13,945)	Interest Paid	(12,862)

NOTES TO THE CORE FINANCIAL STATEMENTS

c) Cash Flows from Investing Activities

<u>2021/22</u>		<u>2022/23</u>
£000		£000
	Cash Flows from Investing Activities	
(84,767)	Property, Plant and Equipment Purchased	(85,270)
(345,210)	Purchase of short term investments	(232,980)
9,047	Proceeds from the sale of property plant and equipment, investment property and intangible assets	11,669
322,800	Proceeds from short-term and long-term investments	246,330
68,035	Other Receipts from Investing Activities - Capital Grants & Contributions Received	37,127
<u>(30,095)</u>	Total Cash Flows from Investing Activities	<u>(23,124)</u>

d) Cash Flows from Financing Activities

<u>2021/22</u>		<u>2022/23</u>
£000		£000
	Cash Flows from Financing Activities	
33,000	Cash receipts of short and long term borrowing	55,000
20,832	Billing Authorities - Council Tax and NNDR adjustments	11,330
(19,664)	Repayment of Short-Term and Long-Term Borrowing	(7,464)
(3,446)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,144)
<u>30,722</u>	Total Cash Flows from Financing Activities	<u>55,722</u>

e) Make-up of Cash and Cash Equivalents

<u>2021/22</u>		<u>2022/23</u>
£000		£000
	Makeup of Cash and Cash Equivalents	
102	Cash and Bank Balances	144
54,400	Cash Investments - regarded as cash equivalents	15,490
(6,654)	Bank Overdraft	(3,804)
<u>47,848</u>		<u>11,830</u>

f) Changes in liabilities

	<u>1 April 2022</u>	<u>Cash Flows</u>	<u>Non-Cash</u>	<u>31 March</u>
	£000	£000	Movements	2023
			£000	£000
Long-term borrowing	239,197	50,000	(10,600)	278,597
Short-term borrowing	16,827	(2,827)	11,774	25,774
Other deferred liabilities	13,098	(364)		12,734
Finance leases and PFI contracts	47,519	(3,144)		44,375
Total	<u>316,641</u>	<u>43,665</u>	<u>1,174</u>	<u>361,480</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

24. Agency Services

Under a number of statutory powers, the Council is permitted to undertake work on behalf of other bodies. Under such arrangements all expenditure, including administration costs, would be reimbursed by the entity concerned.

The collection of council tax and business rates income is in substance an agency arrangement:

Cash collected by Southampton City Council from council tax payers belongs proportionately to Southampton City Council and the major preceptors the Police & Crime Commissioner for Hampshire and the Isle of Wight and Hampshire and Isle of Wight Fire & Rescue Authority. There will therefore be a debtor/creditor position between Southampton City Council and each major preceptor to be recognised, since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council tax payers.

Cash collected from business rates payers by Southampton City Council (net of the cost of collection allowance) belongs proportionately to Southampton City Council (49%), Government (50%) and Hampshire and Isle of Wight Fire & Rescue Authority (1%) (2021/22 Southampton City Council 49%, Government 50% and Hampshire and Isle of Wight Fire & Rescue Authority 1%). There will therefore be a debtor/creditor position between Southampton City Council and Government and H&IOWFRA to be recognised since the cash paid in year will not be its share of the cash collected from business rates payers.

The Council also acts as agent under the Business Improvement District (BID) scheme.

During 2022/23 the Council made mandatory energy rebate scheme payments and energy bills support scheme payments to members of the community on behalf of the government. In 2021/22 the Council made grant payments to businesses, adult social care providers and members of the community on behalf of the government relating to COVID-19. The Council is acting as an agent in making these disbursements and the income and expenditure to which they relate are not included within the Comprehensive Income and Expenditure Statement. Further details of the grant funding received by the Council which has been disbursed is provided in Note 37.

25. Members' Allowances

The total of members' allowances paid in was £0.839M (2021/22 was £0.816M) as detailed in the table below.

	<u>31 March</u> <u>2022</u> <u>£000</u>	<u>31 March</u> <u>2023</u> <u>£000</u>
Basic Allowances	626	645
Responsibility & Other Allowances	182	185
Expenses	8	9
Total	<u>816</u>	<u>839</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

26. Officers' Remuneration

The number of employees (including Senior Officers) whose remuneration, including redundancy payments but excluding pension contributions, was £50,000 or more is shown in the table below.

a) Senior Officers' Remuneration

Local authorities are required to disclose the remuneration details of senior employees, as defined by the CIPFA Code of Practice as derived from (and supplemented by) the overarching requirements of the Accounts and Audit (England) Regulations 2015. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2021/22.

Band £	Number of Employees					
	2021/22			2022/23		
	Schools	Other	Total	Schools	Other	Total
50,000 - 54,999	59	112	171	80	145	225
55,000 - 59,999	51	77	128	45	82	127
60,000 - 64,999	16	27	43	30	48	78
65,000 - 69,999	23	19	42	18	23	41
70,000 - 74,999	18	11	29	19	12	31
75,000 - 79,999	10	7	17	18	7	25
80,000 - 84,999	4	7	11	6	10	16
85,000 - 89,999	2	5	7	5	4	9
90,000 - 94,999	3	5	8	1	3	4
95,000 - 99,999	1	0	1	2	2	4
100,000 - 104,999	0	1	1	1	1	2
105,000 - 109,999	3	3	6	0	2	2
110,000 - 114,999	0	0	0	0	2	2
115,000 - 119,999	0	0	0	2	0	2
120,000 - 124,999	1	1	2	0	0	0
125,000 - 129,999	0	1	1	1	0	1
130,000 - 134,999	1	0	1	0	1	1
135,000 - 139,999	0	0	0	1	0	1
140,000 - 144,999	0	3	3	0	2	2
145,000 - 149,999	0	1	1	0	0	0
150,000 - 154,999	0	0	0	0	0	0
155,000 - 159,999	0	0	0	0	0	0
160,000 - 164,999	0	0	0	0	2	2
165,000 - 169,999	0	0	0	0	1	1
170,000 - 174,999	0	0	0	0	0	0
175,000 - 179,999	0	0	0	0	0	0
180,000 - 184,999	0	0	0	0	0	0
185,000 - 189,999	0	0	0	0	0	0
190,000 - 194,999	0	0	0	0	0	0
195,000 - 199,999	0	0	0	0	0	0
200,000 +	0	1	1	0	0	0
	192	281	473	229	347	576

NOTES TO THE CORE FINANCIAL STATEMENTS

2022/23

<u>Post Holder</u>	<u>Salary</u> (including fees & allowances)	<u>Expense</u> <u>Allowances</u>	<u>Compensation</u> <u>for loss of</u> <u>office</u>	<u>Benefits in</u> <u>Kind</u>	<u>Total</u> <u>Remuneration</u> <u>excluding</u> <u>pension</u> <u>contributions</u> <u>2022/23</u>	<u>Pensions</u> <u>contributions</u> (see Note 4)	<u>Total</u> <u>Remuneration</u> <u>including</u> <u>pension</u> <u>contributions</u> <u>2022/23</u>
	£	£	£	£	£	£	£
Chief Executive - Mike Harris	167,403	23			167,426	30,467	197,893
Executive Director - Communities, Culture & Homes - Mary D'Arcy until 11/01/2023	118,194	92	41,995		160,281	21,337	181,618
Executive Director - Wellbeing & Housing - Claire Edgar (Note 2) from 01/01/2023	34,589				34,589	6,295	40,884
Executive Director - Wellbeing (Children & Learning) - Robert Henderson	161,725	120			161,845	29,434	191,279
Executive Director - Finance & Commercialisation - John Harrison until 26/02/2023	137,500		7,268		144,768		144,768
Executive Director - Corporate Services - Mel Creighton from 27/02/2023	12,690				12,690	2,309	14,999
Director - Strategy & Performance - Munira Holloway from 01/11/2022	35,773				35,773	6,511	42,284
Director - Governance, Legal & HR - Richard Ivory	133,531	549			134,080		134,080
	801,405	784	49,263	-	851,452	96,353	947,805

Note 1

Between 01/04/2022 and 31/03/2023 the Executive Director - Place role was undertaken by Adam Wilkinson via an external company. Payment for this period was £242,146 excluding VAT.

Note 2

Between 01/04/2022 and 06/07/2022 the Executive Director - Wellbeing (Health & Adults DASS) role was undertaken by Guy van Dichele via an external company. Payment for this period was £58,637 excluding VAT.

Note 3

There were no bonuses paid.

Note 4

In 2022/23 the employer's contribution rate for the Local Government Pension Scheme was 18.2%.

NOTES TO THE CORE FINANCIAL STATEMENTS

2021/22

<u>Post Holder</u>	<u>Salary (including fees & allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2021/22</u>	<u>Pensions contributions (see Note 4)</u>	<u>Total Remuneration including pension contributions 2021/22</u>
	£	£	£	£	£	£	£
Chief Executive - Sandy Hopkins until 28/02/2022	192,469		188,239		380,708	25,695	406,403
Acting Chief Executive - Mike Harris from 01/03/2022	13,407				13,407	2,440	15,847
Executive Director - Business Services (Deputy Chief Executive) - Mike Harris (Note 2) until 28/02/2022	128,515				128,515	23,390	151,905
Executive Director - Communities, Culture & Homes - Mary D'Arcy	140,198				140,198	25,516	165,714
Executive Director - Place - Kate Martin until 31/03/2022	129,688				129,688	23,801	153,489
Executive Director - Wellbeing (Children & Learning) - Robert Henderson	150,000				150,000	27,300	177,300
Service Director Legal & Governance - Richard Ivory	120,631	648			121,279		121,279
Executive Director - Finance & Commercialisation - John Harrison	140,198				140,198		140,198
	1,015,106	648	188,239	-	1,203,993	128,142	1,332,135

Note 1

Between 01/04/2021 and 31/03/2022 the Executive Director - Wellbeing (Health & Adults DASS) role was undertaken by Guy van Dichele via an external company. Payment for this period was £241,257 excluding VAT.

Note 2

Between 01/03/2022 and 31/03/2022 the Business Services role was undertaken by James Strachan.

Note 3

There were no bonuses paid.

Note 4

In 2021/22 the employer's contribution rate for the Local Government Pension Scheme was 18.2%.

b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £0.8M (2021/22 £1.0M) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. Details of exit packages for the past two years are shown in the table below.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Exit Package Cost Band</u> <u>(including special</u> <u>payments)</u>	<u>Number of compulsory</u>		<u>Number of Other</u>		<u>Total Number of</u>		<u>Total Cost of Exit</u>	
	<u>Redundancies</u>		<u>Departures agreed</u>		<u>packages by Cost Band</u>		<u>Packages in each Band</u>	
	<u>2021/22</u>	<u>2022/23</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2021/22</u>	<u>2022/23</u>
							<u>£000</u>	<u>£000</u>
£0-£20,000	8	4	16	19	24	23	171	200
£20,001-£40,000	0	3	4	7	4	10	118	279
£40,001-£60,000	2	0	1	3	3	3	146	142
£60,001-£80,000	1	1	1	1	2	2	126	136
£80,001-£100,000	0	0	0	0	0	0	0	0
£100,001-£150,000	0	0	1	0	1	0	108	0
£150,000+	1	0	1	0	2	0	351	0
Total	12	8	24	30	36	38	1,020	757

27. External Audit Costs

The Council's appointed auditors are Ernst & Young. The Council incurred the following fees relating to external audit and inspection.

<u>2021/22</u>	<u>2022/23</u>
<u>£000</u>	<u>£000</u>
136 Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	185
7 Fees payable to Fiander Tovell in respect of grant claims and returns for the year	4
10 Fees payable to KPMG in respect of grant claims and returns for the year	10
153	199

28. Dedicated Schools Grants

The Council's expenditure on schools is grant funded, provided by the Department for Education (DfE) and is mainly the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for the year are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

Details of the Deployment of DSG Receivable for 2022/23 are as follows:

	<u>Central Expenditure</u>	<u>Individual Schools Budget</u>	<u>Total</u>
	£000	£000	£000
Final DSG for 2022/23 before academy and high needs recoupment			227,485
Academy and high needs figure recouped for 2022/23			(78,359)
Total DSG after academy and high needs recoupment for 2022/23			149,126
Plus: Brought forward from 2021/22			0
Agreed initial budgeted distribution in 2022/23	4,899	144,227	149,126
In year adjustments		155	155
Final Budgeted Distribution for 2022/23	4,899	144,382	149,281
Less: Actual central expenditure	(4,651)		(4,651)
Less: Actual ISB deployed to schools		(143,638)	(143,638)
In-year Carry Forward to 2023/24	248	744	992
Carry Forward to 2023/24			992
DSG unusable reserve at the end of 2021/22			(11,092)
Addition to DSG unusable reserve in 2022/23			0
DSG unusable reserve at the end of 2022/23			(11,092)
Net DSG position at the end of 2022/23			(10,100)

The overspend carried forward mainly relates to the cost of additional out of city placements and higher numbers and more complex level of pupils with Special Educational Needs (SEN).

29. Related Parties

The Accounting Code of Practice requires the Council to disclose material transactions and outstanding balances with related parties. Reduced disclosure requirements apply to related party transactions with central government departments, government agencies, NHS bodies and other local authorities. For the City Council a "Related Party" is considered to be:

- Central Government and other local authorities,
- Any joint arrangement with another public body,
- Any subsidiary, associated company or joint venture,
- Elected Members,
- Senior Officers,
- The Council's pension fund
- Entities that are controlled or jointly controlled by elected members or senior officers, or over which they have significant influence.

During the year major transactions with related parties arose with: the Hampshire Pension Fund and the Teachers' Pension Agency as disclosed in Note 33 Pension Schemes accounted for as a Defined Contribution Schemes and Note 34 Defined Benefit Pension Schemes; Hampshire, Southampton and Isle of Wight Integrated Care Board as disclosed in Note 39 Pooled Budgets; and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants, shown in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance. The payment of

NOTES TO THE CORE FINANCIAL STATEMENTS

precepts to the Hampshire and Isle of Wight Police & Crime Commissioner and Hampshire and Isle of Wight Fire & Rescue Authority are not considered to be related party transactions, as the Collection Fund operates on an agency basis. Details of companies which the City Council has an interest are provided in Note 36.

The city of Southampton submitted a bid to become the UK City of Culture 2025. Southampton City Council, along with other partners across the city, helped to support the bid process which was led by the Southampton 2025 Trust. The bid was unsuccessful, however, the City Council has since provided support for the creation of Southampton Forward, a new culture trust to take forward the legacy from the bidding process. The Leader of the Council and the Chief Executive are trustees of the trust. The new trust has bid for further funding from the Arts Council England. The Council provided £0.464M of grant funding and benefits-in-kind to support the bid process and creation of the new trust in 2022/23 (£0.951M support to Southampton 2025 in 2021/22).

For elected members and senior officers it also includes members of their close family, their households and any company, trust etc. in which they have a controlling interest. Elected members and senior officers were requested to disclose any related party transactions which are as follows:

- One councillor is a trustee of the National Spitfire Project which received grant payments from the Council of £0.063M in 2022/23.
- One councillor is a trustee of Southampton Advice and Representation Centre which received service payments of £0.100M from the Council in 2022/23.
- One councillor is a trustee of Southampton Children's Play Association which received grant payments of £0.182M from the Council in 2022/23
- One councillor has a member of their close family who is a trustee of Monty's Community Hub which received service payments of £0.037M in 2022/23 and from which the Council received payments of £0.061M.
- Two councillors have an interest in Music in the City which received grant payments of £0.009M from the Council in 2022/23.

30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>CAPITAL EXPENDITURE AND FINANCING</u>		
	<u>2021/22</u>	<u>2022/23</u>
	£000	£000
Opening Capital Financing Requirement	506,313	507,877
Capital Investment		
Intangible assets	2,499	3,328
Property Plant & Equipment	83,428	79,232
Revenue Expenditure Funded from Capital under Statute	15,432	15,067
Heritage Assets	1,025	646
Investment Properties	0	544
Financial Instruments (Housing Improvement Loans)	(8)	0
Sources of Finance		
Capital Receipts	(3,814)	(6,583)
Government grants & other contributions	(56,790)	(48,999)
Use of Major Repairs Reserve	(22,014)	(20,763)
Direct Revenue Financing	(3,787)	(1,790)
Donated Asset	0	0
MRP	(14,407)	(11,120)
Closing Capital Financing Requirement	507,877	517,439
Increase in underlying need to borrow (unsupported by Government financial assistance)	15,971	20,682
MRP	(14,407)	(11,120)
Increase / (Decrease) in Capital Financing Requirement	1,564	9,562

31. Leases

a) Council as a Lessor

Operating Leases

The Council leases property and equipment under operating leases for the following purposes:

- The provision of community services, such as tourism services and community centres;
- Economic development purposes to provide suitable affordable accommodation for local businesses;
- Investment purposes.

The future minimum lease payments receivable under non-cancellable leases in future years and contingent rents for the year are:

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	31 March	31 March
	2022	2023
	£000	£000
Not later than one year	7,116	7,048
Later than one year and not later than five years	22,516	22,109
Later than five years	526,664	526,074
	556,296	555,231
Contingent Rents	544	454

The amounts in the above table include "market value" property ground rents which have all been treated as operating leases even where the period of the lease exceeds 150 years.

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

32. PFI and Similar Contracts

The Council is currently involved with five PFI and Similar Contracts, three of which require to be accounted for on Balance Sheet in accordance with our Accounting Policy (PFI schools, Hampshire Waste Management Contract, PFI Street Lighting) and two which are not (Northlands & Oak Lodge Nursing Homes run by BUPA Care Homes Limited).

a) On Balance Sheet

PFI Schools

A PFI project was approved by the Government to significantly improve the quality of the buildings in three of the City's secondary schools and also to provide additional places in two of them. The works were procured under the PFI whereby a consortium of private sector companies, known as Pyramid Schools (Southampton) Ltd designed, built, financed and now operate the schools. The contract start date was 29 October 2001 and will terminate on 31 August 2031. The estimated capital value of these schemes is £37M.

The consortium provides building related services such as cleaning, care-taking and repairs, but teaching and curriculum related staff continue to be employed by the Council. The Council started to pay an annual fee to the consortium following the completion of the first school during the 2005/06 financial year. The fee, known as the 'Unitary Charge,' covers both the running costs of the school buildings and the cost of building the schools.

The cost of the project is being met partly through additional grant from Central Government and partly through existing budgets (either from budgets delegated to the schools concerned or controlled by the Council).

The three schools have now transferred to Trust status and once transfer agreements have been completed the fixed assets will be derecognised from the Balance Sheet.

Hampshire Waste Contract

At the end of the 1980's it became evident that Hampshire was facing a waste disposal crisis. Landfill space was rapidly running out, incinerators built in the 1970's were not going to meet EU emission regulations and waste levels were continuing to rise.

In 1995 the Hampshire Waste Strategy was adopted which led to Project Integra, which is a unique partnership between the Council, Hampshire County Council, Portsmouth City Council, the 11 District

NOTES TO THE CORE FINANCIAL STATEMENTS

Councils, and Veolia Environmental Services.

In 1996 the Council (11.48% share) entered into a tri-partite arrangement with Hampshire County Council (77%) and Portsmouth City Council (11.52%), in respect of the provision of Waste Management Services from Veolia Environment Services. Although this arrangement was entered into pre PFI it requires to be accounted for as an on Balance Sheet PFI type arrangement under the Code.

Broadly, the services contract involved the building and running of three Energy Recovery Facilities and two Material Recycling Facilities and the provision of Waste Management Services within Hampshire for a 25 year period. Southampton and Portsmouth City Councils have worked with Hampshire County Council, as the lead authority, to calculate the fair value of the Assets built for the servicing of the Waste Management Contract. The Council has accounted for its share of the Assets (11.48%) on the basis of its share of the Annual Unitary Charge.

PFI Street Lighting

From 1 April 2010, the Council entered into a 25 year PFI contract with Tay Valley Lighting to provide the city's street lighting services. Over the initial five years of the contract, the contractor replaced all life expired apparatus with new energy-efficient apparatus. This 'core investment programme' has a capital value of £26M and includes the replacement of 17,000 of the city's 28,000 streetlights and associated apparatus. The contractor is also responsible for the operation and maintenance, to agreed performance standards, of all apparatus (new and existing) for the life of the contract. The Council pays a single fee to the contractor for these services (capital investment, operation and maintenance). Payment of this 'unitary charge' is funded partly through a PFI annuity grant received from Central Government and partly through existing Council budgets for street lighting. In 2022/23 the Council received a £1.6M rebate on the unitary charge following a refinancing of the scheme by the PFI operator, which has been accounted for as a contingent rent.

b) Off Balance Sheet

BUPA Care Homes (Northlands & Oak Lodge Nursing Homes)

The purpose of these Public Private Partnership (PPP) projects is to increase the number of nursing care beds within the city and in turn secure, under a block contract, the Council's accessibility to the beds. The private sector partner for this PPP is BUPA Care Homes Ltd. The Council has agreed to lease the land on which the nursing homes have been built to BUPA for nil consideration for the duration of 50 years.

BUPA manages both the property and service provision. The Council is not involved in direct service management or providing any staff. The Council has block contracts for 25 years (Northlands July 2005 – July 2030 and Oak Lodge Feb 2011 – Feb 2035), to purchase beds, (Northlands 72 of 101, and Oak Lodge 40 of 71) at the Nursing Homes annually.

Payment is made monthly to BUPA, based on the 'Unitary Charge', which is the price per bed per week.

A review of these arrangements indicates that they do not require to be accounted for as On Balance Sheet PFI schemes as the Council does not control the residual interest in the Assets (Nursing Homes) at the end of the 25 year service concession period.

The PFI and service concession arrangements that are included within Fixed Asset Balances are as follows.

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Cost or Valuation				
At 1 April 2022	41,310	12,309	25,819	79,438
Adjustment to Opening Balance				0
	41,310	12,309	25,819	79,438
Additions	12			12
Disposals				0
Revaluations	11,940			11,940
Impairments				0
At 31 March 2023	53,262	12,309	25,819	91,390
Depreciation & Impairment				
At 1 April 2022	0	(3,548)	(7,222)	(10,770)
Adjustment to Opening Balance				0
	0	(3,548)	(7,222)	(10,770)
Depreciation Charge for the Year	(1,922)	(886)	(827)	(3,635)
Disposals				0
Revaluations	1,922			1,922
Impairments				0
At 31 March 2023	0	(4,434)	(8,049)	(12,483)
Balance Sheet amount at 31 March 2023	53,262	7,875	17,770	78,907
Balance Sheet amount at 31 March 2022	41,310	8,761	18,597	68,668

The Finance Creditor associated with the above schemes within the Balance Sheet is as follows:

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance 1 April 2022	24,915	2,805	19,799	47,519
New Schemes in 2022/23	0	0	0	0
Repayments	(1,423)	(1,135)	(586)	(3,144)
Balance 31 March 2023	23,492	1,670	19,213	44,375
Due within 1 Year				
Balance 1 April 2022	1,423	1,135	586	3,144
Repayments	(1,423)	(1,135)	(586)	(3,144)
Due within 1 Year	1,727	875	692	3,294
Balance 31 March 2023	1,727	875	692	3,294
Long Term Creditor Balance 31 March 2023	21,765	795	18,521	41,081

The Future Obligations in respect of the three on Balance Sheet PFI / service concession arrangements are as follows:

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	<u>PFI - Schools</u>				<u>Hampshire Waste</u>			<u>PFI - Street Lighting</u>			<u>Total</u>
	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Contingent Rents</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	1,727	1,996	2,918	772	875	301	7,206	692	2,282	1,378	20,147
within 2 to 5 years	9,678	1,996	9,063	6,488	795	153	9,745	3,959	8,133	5,890	55,900
within 6 to 10 years	12,087	2,377	6,832	8,197				9,032	6,573	8,296	53,394
within 11 to 15 years								5,530	853	3,638	10,021
Balance 31 March 2023	23,492	6,369	18,813	15,457	1,670	454	16,951	19,213	17,841	19,202	139,462

The future obligations in respect of the two Off Balance Sheet Public Private Partnerships (PPP) arrangements are as follows:

	<u>BUPA Care Homes</u>			<u>Total</u>
	<u>Northlands</u>	<u>Oak Lodge</u>		
	£000	£000		£000
within 1 year	3,607	2,477		6,084
within 2 to 5 years	14,427	9,910		24,337
within 6 to 10 years	2,416	12,387		14,803
within 11 to 15 years		4,583		4,583
Balance 31 March 2023	20,450	29,357		49,807

Payments for the year in respect of PFI and service concession arrangements were as follows:

	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Contingent Rents</u>	<u>Total</u>
	£000	£000	£000	£000	£000
PFI Schools	1,423	2,117	2,443	1,273	7,256
Hampshire Waste	1,135	505	6,600		8,240
PFI Street Lighting	586	2,355	1,341	(1,564)	2,718
BUPA Care Homes					
Northlands			3,050		3,050
Oak Lodge			1,897		1,897
Totals	3,144	4,977	15,331	(291)	23,161

33. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. However, the scheme is unfunded and it is not

NOTES TO THE CORE FINANCIAL STATEMENTS

possible to identify the Council's share of the underlying liabilities. The scheme is therefore accounted for as a defined contribution scheme and the Department for Education (DfE) uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is not able to identify its proportion of the total contributions into the Teacher's Pension Scheme with sufficient reliability for accounting purposes.

In 2022/23 the Council paid £11.8M to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay (2021/22 £11.6M and 23.7%). The contributions due to be paid in the next financial year are estimated to be £12.2M.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 34.

34. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

As part of the terms and conditions of the employment of its Officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until the employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS) which is administered locally by Hampshire County Council - this is a funded defined benefit pension scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pension liabilities with investment assets.

The Council also makes arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The Hampshire County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Hampshire County Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Director of Corporate Operations and Deputy Chief Executive of Hampshire County Council and JPM Investment Fund Managers.

The objective of the scheme is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2025.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirement to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

b) Transactions Relating to Post-employment Benefits

In 2022/23 the Council paid an employer's contribution of £31.5M (2021/22 £24.3M) into Hampshire County Council's Pension Fund. The employer's rate for 2022/23 was 18.2% of employees' pay (2021/22 18.2%).

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The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2024 is £27.3M. The weighted average duration of the defined benefit obligation for the scheme members is 17.6 years.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement (MiRS). The table below shows the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the MiRS during the year.

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
Service cost comprising:						
Current Service Cost	60,154	62,330	0	0	60,154	62,330
Past Service Cost	94	147	0	0	94	147
(Gain)/loss from settlements	0	0	0	0	0	0
Financing and Investment Income and Expenditure						
Expenditure:						
Net interest expense	11,375	10,244	692	817	12,067	11,061
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	71,623	72,721	692	817	72,315	73,538
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement						
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	(60,247)	97,845	0	0	(60,247)	97,845
Actuarial gains and losses arising on changes in demographic assumptions	(28,637)	0	(504)	83	(29,141)	83
Actuarial gains and losses arising on changes in financial assumptions	(102,578)	(576,196)	(871)	(5,343)	(103,449)	(581,539)
Other experience and actuarial adjustments	(18,324)	114,337	127	1,397	(18,197)	115,734
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	(209,786)	(364,014)	(1,248)	(3,863)	(211,034)	(367,877)
Movement in Reserves Statement						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(71,623)	(72,721)	(692)	(817)	(72,315)	(73,538)
Actual amount charged against the General Fund Balance for pensions in the year						
Employers Contributions payable to scheme	22,083	29,204			22,083	29,204
Retirement benefits payable to pensioners			2,172	2,148	2,172	2,148

c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2023 are shown in the following table. The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £98.1M (2021/22 £423.7M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life

NOTES TO THE CORE FINANCIAL STATEMENTS

of employees, at a level assessed by the scheme actuary. The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension		Discretionary Benefits		Total	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000	£000	£000
Present value of the defined benefit obligation	1,533,631	1,149,503	31,314	26,120	1,564,945	1,175,623
Fair value of plan assets	(1,141,200)	(1,077,569)	0	0	(1,141,200)	(1,077,569)
Sub-total	392,431	71,934	31,314	26,120	423,745	98,054
Other movements in the liability (asset)	0	0	0	0	0	0
Net liability arising from defined benefit obligation	392,431	71,934	31,314	26,120	423,745	98,054

d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2022. This has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2023.

Movements in liabilities and assets for the year are shown in the following tables:

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits		Total Funded and Unfunded Liabilities	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000	£000	£000
Opening balance at 1 April	1,615,353	1,533,631	34,042	31,314	1,649,395	1,564,945
Current service cost	60,154	62,330	0	0	60,154	62,330
Interest cost	33,653	41,067	692	817	34,345	41,884
Contributions from scheme participants	8,317	9,666	0	0	8,317	9,666
Remeasurement (gains) and losses:						
Actuarial gains/losses arising from changes in demographic assumptions	(28,637)	0	(504)	83	(29,141)	83
Actuarial gains/losses arising from changes in financial assumptions	(102,578)	(576,196)	(871)	(5,343)	(103,449)	(581,539)
Other	(18,324)	114,337	127	1,397	(18,197)	115,734
Past service cost	94	147	0	0	94	147
Benefits paid	(34,401)	(35,479)	(2,172)	(2,148)	(36,573)	(37,627)
Liabilities extinguished on settlements (where relevant)	0	0	0	0	0	0
Closing balance at 31 March	1,533,631	1,149,503	31,314	26,120	1,564,945	1,175,623

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000	£000	£000
Opening fair value of scheme assets	1,062,676	1,141,200	0	0	1,062,676	1,141,200
Interest income	22,278	30,823	0	0	22,278	30,823
Remeasurement gain/(loss)	60,247	(97,845)	0	0	60,247	(97,845)
Contributions from employer	22,083	29,204	2,172	2,148	24,255	31,352
Contributions from employees into the scheme	8,317	9,666	0	0	8,317	9,666
Benefits paid	(34,401)	(35,479)	(2,172)	(2,148)	(36,573)	(37,627)
Other	0	0	0	0	0	0
Closing fair value of scheme assets	1,141,200	1,077,569	0	0	1,141,200	1,077,569

e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been

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estimated by Aon, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2022. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS19 purposes were:

	Local Government Pension Scheme		Discretionary Benefits	
	2021/22	2022/23	2021/22	2022/23
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	23.2	23.3	22.9	23.3
Women	25.6	25.7	25.4	25.7
Longevity at 65 for future pensioners:				
Men	23.7	23.8	-	-
Women	26.6	26.7	-	-
CPI inflation	3.0%	2.7%	3.0%	2.7%
Rate of increase in salaries	4.0%	3.7%	-	-
Rate of increase in pensions	3.0%	2.7%	3.0%	2.7%
Rate for discounting scheme liabilities	2.7%	4.7%	2.7%	4.7%

f) Pension Scheme Assets

The approximate split of assets for the Fund as a whole (based on data supplied by Hampshire County Council, the Fund administering authority) is shown in the table below.

	2021/22	2021/22	2021/22	2022/23	2022/23	2022/23
	%	%	%	%	%	%
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	44.70	11.00	55.70	42.00	15.60	57.60
Property	0.90	6.00	6.90	1.40	5.40	6.80
Government Bonds	18.00	-	18.00	16.50	-	16.50
Corporate Bonds	-	-	-	-	-	-
Multi Asset Credit	9.20	-	9.20	-	-	-
Cash	0.90	-	0.90	1.10	-	1.10
Other	5.80	3.50	9.30	-	18.00	18.00
Total assets	79.50	20.50	100.00	61.00	39.00	100.00

g) Sensitivity analysis

The effect of an increase or decrease in the assumptions used to calculate the net pension liability is set out below.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	(19,542)	20,691
Rate of increase in salaries (increase or decrease by 1%)	1,150	(1,150)
Rate of increase in pensions (increase or decrease by 1%)	19,542	(18,392)
Rates for discounting scheme liabilities (increase or decrease by 1%)	29,887	(29,887)

Further information can be found in the actuary's valuation report and Hampshire County Council's Pension Fund Annual Report, which are available from the Director of Corporate Operations and Deputy Chief Executive, The Castle, Winchester, Hampshire, SO23 8UB.

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35. Contingent Liabilities/ Assets

Contingent Liabilities are potential liabilities which are not currently legally enforceable but may become so on the happening of a future event.

a) Deprivation of Liberty Safeguards

The Mental Capacity Act 2005 provides a statutory framework for acting and making decisions on behalf of people who lack the capacity to make those decisions for themselves. These are known as Deprivation of Liberty Safeguards (DoLS). The Council may face compensation claims if DoLS applications are not properly authorised. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

b) Equal Pay Claims

The Council has received a small number of equal pay claims which are due to proceed to tribunal. The Council has not accepted the validity of any claims received and will be challenging the claims as appropriate. The Council recognises the potential that further equal pay claims may arise, some of which may lead to employees taking employment tribunal action. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

c) Municipal Mutual Insurance – Scheme of Arrangement

Prior to 1992 the Council was insured by Municipal Mutual Insurance (MMI). MMI ceased accepting new business or to renew general insurance business in September 1992 following which a Scheme of Arrangement (SoA), under Section 425 of the Companies Act 1985, was enacted. The SoA, formally triggered by the Directors of MMI in November 2012, was established as a better alternative to an insolvent liquidation, in the event that MMI could not achieve a solvent run-off. From that date control of MMI passed to the scheme administrator, Ernst & Young LLP, who became responsible for the management of the company's business affairs and assets.

An initial levy of 15% of previously paid claims, less the first £0.050M, was collected by MMI from scheme members in February 2014. In April 2016, following a further review by the scheme administrator, the levy was increased by a further 10% to 25%. To date total sum of £0.347M has been paid to MMI in respect of the levy payments made by Southampton City Council. Under the terms of the SoA, the Council also has to meet 25% of any new insurance claim settlements made by MMI. An annual review of the levy rate is required under the terms of the SoA and this could lead to the rate being further amended in future.

An earmarked Insurance reserve, with a balance of £0.13M (2021/22 £0.7M), is currently available to mitigate the financial pressure created by the MMI levy and any other uninsured losses, which might occur in the future. This figure, which is intended to be both prudent and realistic, is subject to periodic review. The reduction in the earmarked reserve reflects advice provided as part of the external actuarial review of the self-insurance arrangements in 2022/23.

As at 31 March 2023, the Council's outstanding potential liability under the SoA stood at £1.390M (2021/22 £1.390M), less the £0.347M payment already made under the scheme and noting that there were no outstanding claim reserves.

36. Interest in Companies

The Council reviews annually any interests in companies and other entities for any financial relationships which under the Code's classification would require the Council to produce Group Accounts. In 2022/23 there were no material transactions that required the production of group accounts, however it should be noted that the Council does have a limited liability partnership with PSP Facilitating Limited. The Council's share of the estimated net assets of PSP Southampton LLP at 31 March 2023 was £0.005M (2021/22 £0.005M).

37. Capital and Revenue Grants & Contributions, Receipts in Advance

- a) Capital Grants and Contributions with outstanding conditions are credited to Capital Grants and Contributions Receipts in Advance in accordance with the requirements of the Code.

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<u>2021/22</u>		<u>2022/23</u>	
£000		£000	
(26,298)	Balance Brought Forward	(49,856)	
(42,548)	Amounts Received in Year	(9,857)	
18,990	Amounts Applied to Finance Capital in year	20,921	
<u>(49,856)</u>	Balance Carried forward	<u>(38,792)</u>	

- b) Capital Grants and Contributions have been credited to the Comprehensive Income and Expenditure Statement as follows:

<u>2021/22</u>		<u>2022/23</u>	
£000		£000	£000
	Grants		
	Department for Education		
(8,180)	Basic Need Grant	(7,752)	
(4,306)	School Condition Allocation	(3,230)	
(465)	Schools Devolved Formula Grant	(482)	
(2,107)	High Needs Provision Capital Allocation	(7,602)	
0	Other	(37)	
<u>(15,058)</u>			<u>(19,103)</u>
(2,744)	Department for Levelling Up, Housing and Communities		(2,506)
(1,623)	Department for Business, Energy & Industrial Strategy		(9)
(1)	Heritage Lottery Fund		0
(19,460)	Department for Transport		(21,532)
(10)	Department for Culture, Media and Sport		0
(474)	Homes & Communities Agency		(100)
(118)	Environment Agency		(58)
0	British Library		(74)
0	Sports England		(119)
(87)	Other		(246)
<u>(39,575)</u>			<u>(43,747)</u>
(4,298)	Contributions		(4,367)
<u>(43,873)</u>	Total		<u>(48,114)</u>
(28,746)	Credited to Capital Grants and Contributions CIES		(33,358)
(15,127)	Credited to Cost of Services		(14,756)
<u>(43,873)</u>	Total		<u>(48,114)</u>

- c) The following table shows revenue government grants that have been credited to the Comprehensive Income and Expenditure Statement (CIES) and grants received that have been excluded from the CIES. Grants in respect of COVID-19 are shown separately:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2021/22</u> £000		<u>2022/23</u> £000
	General Government Grants	
(11,024)	Revenue Support Grant	(11,367)
(8,451)	Social Care Grant	(11,526)
(4,932)	Section 31 Business Rates Grants	(11,150)
(4,628)	Business Rates Retention Tariff/Top-Up Services Grant	(4,628) (3,816)
(1,249)	Housing Benefit and Council Tax Admin Grant	(1,258)
(1,512)	New Homes Bonus Scheme	
(1,300)	Other Grants less than £1M	(3,565)
(33,096)		(47,310)
	COVID-19	
(12,011)	Section 31 Business Rates Grants	(4,668)
(7,817)	COVID-19 Local Authority Support	
(2,818)	Local Council Tax Support Grant	
(1,244)	Compensation for Loss of Fees & Charges	
(775)	Other Grants less than £1M	46
(24,665)		(4,622)
(57,761)		(51,932)
	Credited to Services	
(142,285)	Dedicated Schools Grant (DSG)	(149,281)
(63,197)	Housing Benefit Grant	(59,905)
(17,459)	Public Health Grant	(17,950)
(10,390)	Improved Better Care Fund	(10,705)
(9,551)	Pupil Premium (including PE & Sports Premium)	(9,836)
(5,859)	Private Finance Initiative (PFI)	(5,859)
	Household Support Fund*	(3,880)
(2,716)	Homelessness and Rough Sleeping Grants	(2,952)
	Schools Supplementary Grant	(2,847)
(1,317)	Unaccompanied Asylum Seeking Children Homes for Ukraine Grant	(1,856) (1,397)
	School Holiday Activities and Food Programme*	(1,258)
	Schools Devolved Formula Capital Grant	(1,196)
(1,206)	Universal Infant Free School Meals	(1,150)
	Supporting Families Grant	(1,033)
(10,834)	Other Grants less than £1M	(14,959)
(264,814)		(286,064)
	COVID-19	
(7,947)	Local Authority Discretionary Grant Funding to Businesses	
(2,017)	Contain Outbreak Management Fund	
(2,136)	Adult Social Care Workforce	
(1,956)	Household Support Fund*	
(1,325)	Local Support Grant (formerly Winter Grant Scheme)	
(1,194)	Pupil Premium Catch Up and Recovery Funding	(1,714)
(1,073)	School Holiday Activities and Food Programme*	
(1,156)	Adult Social Care Infection Control & Testing Discretionary Grants	
(4,563)	Other Grants less than £1M	(805)
(23,367)		(2,519)
(288,181)		(288,583)
	Not included in the Comprehensive Income and Expenditure Statement	
	COVID-19	
(10,944)	Restart Grants to Businesses	
(2,300)	Adult Social Care Infection Control & Testing Grants	
(1,442)	Omicron Hospitality & Leisure Grants	
(1,256)	Other Grants less than £1M	41
(15,942)		41
	Other	
	Council Tax Energy Rebate Scheme - Non-Discretionary	(14,264)
	Other Grants less than £1M	(4)
0		(14,268)
(15,942)		(14,227)

NOTES TO THE CORE FINANCIAL STATEMENTS

*Grants previously given in response to COVID-19, however now mainstream schemes

The £14.2M (£15.9M 2021/22) of grants not included in the Comprehensive Income and Expenditure Statement are where the Council has acted as an agent of central government in disbursing funding to individuals, businesses and social care providers.

38. Deferred Liabilities

This balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1 April 1997 and the Magistrates Courts, which is being repaid over 50 years at £0.4M per annum.

31 March		31 March
2022		2023
£000		£000
13,462	Balance Brought Forward	13,098
(364)	Principal written down	(364)
13,098		12,734

39. Pooled Budgets

Pooled budget arrangements are made in accordance with Section 75 (S75) of the National Health Services Act 2006 which allows partnership arrangements between National Health Service (NHS) bodies, Local Authorities (LA) and other agencies in order to improve and co-ordinate services. These arrangements are accounted for as joint operations.

Better Care Southampton

Southampton City Council (SCC) has entered into pooled budget arrangements with NHS Hampshire, Southampton and Isle of Wight Integrated Care Board (formerly Clinical Commissioning Group) with the aim of focussing services and activities for client groups, allowing the organisations to act in a more cohesive way. The governance and operation of the partnership arrangements are overseen by the Commissioning Partnership Board.

Together the City Council and ICB have identified service areas where closer integrated working and pooled budgets would lead to benefits for the population. These are:

Locality Based Hospital Unit (LBHU) pooled budget: hosted by the City Council; to commission residential, domiciliary care and continuing care services for former residents of the LBHU in Southampton.

Reablement & Rehabilitation (R&R) pooled budget: hosted by the ICB; services commissioned under this scheme include ICB contracts with NHS Providers, Independent Sector Providers and local authority in-house provision (some of which were previously S256 agreements).

The table below shows pooled funds with income/expenditure in excess of £2M.

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the HRA. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to, or from, the Council Tax payer and between the HRA and General Fund.

Transactions relating to the HRA have been separated into two statements:

- Housing Revenue Account Income and Expenditure Statement
- Statement of Movement on the Housing Revenue Account

HRA Income and Expenditure Statement

<u>2021/22</u>		<u>2022/23</u>
£000	Expenditure	Notes £000
18,532	Repairs and maintenance	23,766
30,129	Supervision and management	29,678
5,893	Rents, rates, taxes and other charges	8,125
(19,176)	Depreciation, impairment and revaluation (gains) of non-current assets	33,361
87	Debt management costs	77
690	Movement in the allowance for bad debts	1,366
36,155	Total Expenditure	96,373
	Income	
(71,036)	Dwellings rent	(70,563)
(1,236)	Non-dwelling rents	(1,317)
(8,182)	Charges for services & facilities	(10,495)
(990)	Contributions towards expenditure	(2,077)
(81,444)	Total Income	(84,452)
(45,289)	Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement	11,921
518	HRA services' share of Corporate and Democratic Core	518
(44,771)	Net Expenditure/(Income) for HRA Services	12,439
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement	
(2,839)	(Gain) or loss on the sale of HRA non-current assets	(6,477)
(31)	Capital Receipts not matched by Disposal of Assets	(13)
(133)	Investment Property Revaluation Movements	(42)
4,779	Interest payable and similar charges	5,123
0	Interest and investment income	(57)
2,184	Net interest on the net defined benefit liability	2,053
(1,006)	Capital grants and contributions receivable	(898)
(41,817)	(Surplus) or Deficit for the Year on HRA Services	12,128

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Statement of Movement on the Housing Revenue Account

<u>2021/22</u> £000		<u>2022/23</u> £000	£000
(2,000)	Opening Balance		(2,920)
	Movement in Year		
(41,817)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	12,128	
40,897	Adjustments between accounting basis and funding basis under statute	(11,208)	
<u>(920)</u>	Transfer to / (from) reserves		<u>920</u>
<u>(2,920)</u>	Closing HRA Balance		<u>(2,000)</u>

Note to the Statement of Movement on the Housing Revenue Account

<u>2021/22</u> £000		<u>2022/23</u> £000
	Analysis of adjustments between accounting basis and funding basis under statute	
19,176	Depreciation, impairment and revaluation gains or (losses) of non-current assets	(33,361)
3,702	Voluntary MRP	0
2,870	Gain or (loss) on the sale of HRA non-current assets	6,490
133	Impairment and revaluation of investment properties	42
(8,698)	HRA share of contribution to or from the pension reserve	(7,830)
19,517	Transfer to Major Repairs Reserve	20,763
1,006	Capital grants and contributions applied	898
3,191	Capital expenditure funded by the HRA	1,790
<u>40,897</u>	Net Adjustment	<u>(11,208)</u>

1. Council House Rents

At 31 March 2023, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 14.46% (31 March 2022 15.00%). The total arrears were £10.507M (31 March 2022 £10.142M). Rents written off during the year amounted to £0.464M (2021/22 £0.869M). The amount set aside for doubtful debts was £6.120M (31 March 2022 £5.338M).

2. Housing Stock

As at the 31 March 2023, the Council housing stock was made up of the following types of property:

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<u>Number of Properties Held</u>	
31 March 2022	31 March 2023
4,848 Houses	4,817
11,032 Flats	11,001
16 Bungalows	16
<u>15,896</u>	<u>15,834</u>

The Balance Sheet value of HRA assets was as follows:

<u>Balance Sheet Value of HRA Assets</u>	
<u>2021/22</u>	<u>2022/23</u>
£000	£000
<i>Property Plant & Equipment</i>	
754,041 Dwellings	753,564
8,107 Other Operational Property	7,920
18,799 Assets Under Construction	16,594
<u>780,947</u>	<u>778,078</u>
<i>Other Property</i>	
5,898 Investment Property	5,940
876 Intangibles	1,601
421 Surplus Assets	418
<u>7,195</u>	<u>7,959</u>
<u>788,142</u>	<u>786,037</u>

The vacant possession value of Council Dwellings at 1 April 2022 was £2,174M (£2,046M as at 1 April 2021) which is the Council's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation.

The difference between the two shows the economic cost to the Government of providing Council housing at less than open market value. The value is based on stock as at the 31 March 2023.

3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. There were no impairments in 2021/22 or 2022/23.

<u>2021/22</u>	Depreciation	<u>2022/23</u>
£000		<u>Restated</u>
		£000
21,799	Balance at 1 April	852
(21,311)	Depreciation written off in year	(20,776)
19,517	Depreciation during year	20,763
<u>20,005</u>	Balance as at 31 March	<u>839</u>

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

4. Capital Expenditure

Capital expenditure and how it was financed is analysed in the following tables:

<u>Capital Spending</u>		
<u>2021/22</u>		<u>2022/23</u>
£000		£000
26,546	Housing Stock	32,804
6,142	Housing Stock Under Construction	2,138
381	Intangible assets	934
<u>33,069</u>	Total Capital Expenditure	<u>35,876</u>
<u>Capital Expenditure Source of Finance</u>		
£000		£000
3,562	Capital Receipts	6,272
0	Grants	0
22,014	Transfer from Major Repairs Reserve	20,763
1,006	Contributions	898
3,191	Direct Revenue Funding	1,790
3,296	Unsupported Borrowing	6,153
<u>33,069</u>	Total Financing	<u>35,876</u>

5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts for the year. In 2005/06 the Government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the Government then distributes to local authorities and housing associations on the basis of need.

In 2012/13, under the Government's 'Reinvigorating the Right to Buy' initiative, the rules changed to allow local authorities to retain receipts that exceed a predetermined set level.

Any additional receipts can be used to fund up to 40% (2021/22 40%) of new build affordable housing projects to replace stock on a one for one basis. Receipts are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In addition to these receipts, for 2022/23 and 2023/24, the Treasury share of £1.160M can be retained and used to fund up to 40% of new build affordable housing projects. In 2022/23 the Council received £5.41M (2021/22 £3.36M) from right to buy sales that can be utilised on new build affordable housing projects.

<u>2021/22</u>	<u>Sale of Assets</u>	<u>2022/23</u>
£000		£000
7,092	Council Housing	11,409
31	Land, Buildings & Equipment	13
<u>7,123</u>		<u>11,422</u>

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

The Collection Fund

This account reflects the statutory requirements for the Council as a billing authority to maintain a separate Collection Fund. It shows the transactions of the billing authority in relation to non-domestic (business) rates and council tax and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund Balance Sheet is consolidated within the accounts.

<u>Income and Expenditure for the Year Ended 31 March 2023</u>			
<u>2021/22</u>		<u>2022/23</u>	
£000	Council Tax	Notes	£000
	Income		
(128,836)	Income due from Council Tax Payers		(130,517)
	Transfers (to)/ from the General Fund		
(207)	- Hardship Relief		(233)
0	- Transitional Relief		0
<u>(207)</u>			<u>(233)</u>
(129,043)			(130,750)
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax		
(2,204)	- Southampton City Council		2,470
(298)	- Hampshire and IOW Police & Crime Commissioner		341
<u>(97)</u>	- Hampshire and IOW Fire & Rescue Authority		<u>105</u>
<u>(2,599)</u>			<u>2,916</u>
(131,642)	Total Council Tax Income		(127,834)
	Expenditure		
	Precepts		
105,881	- Southampton City Council Precept		108,770
14,582	- Hampshire and IOW Police & Crime Commissioner Precept		15,641
<u>4,535</u>	- Hampshire and IOW Fire & Rescue Authority Precept		<u>4,989</u>
124,998		2	129,400
	Impairment of debts		
1,219	- Write offs		2,718
<u>1,489</u>	- Allowance for impairment		<u>(625)</u>
2,708			2,093
127,706	Total Council Tax Expenditure		131,493
(3,936)	Council Tax - Deficit / (Surplus) for the Year	4	3,659
1,177	Council Tax - Deficit / (Surplus) Brought Forward	4	(2,759)
(2,759)	Council Tax Deficit / (Surplus) Carried Forward	4	900
	Business Rates		
	Income		
(87,219)	Income Collectable from Business Ratepayers	3	(89,276)
	Contributions towards Previous Year's (Deficit)/ Surplus NDR		
(25,585)	- Southampton City Council		(11,893)
(26,198)	- Central Government - DLUHC		(12,136)
<u>(523)</u>	- Hampshire and IOW Fire & Rescue Authority		<u>(243)</u>
<u>(52,306)</u>			<u>(24,272)</u>
(139,525)	Total Business Rates Income		(113,548)
	Expenditure		
1,005	- Payment to DLUHC - Transitional Arrangements		568
49,831	- Payment to DLUHC - Business Rate Retention		45,584
48,835	- SCC Business Rates Retention		44,672
997	- Hampshire and IOW Fire & Rescue Authority Precept		912
0	- Interest on Overpayments		0
<u>304</u>	- Costs of Collection		<u>298</u>
100,972			92,034
	Impairment of debts/appeals		
772	- Write offs		329
1,199	- Allowance for impairment		929
<u>3,010</u>	- Appeals provision		<u>(10,056)</u>
4,981			(8,798)
105,953	Total Business Rates Expenditure		83,236
(33,572)	Business Rates (Surplus) / Deficit For the Year	4	(30,312)
50,681	Business Rates - Deficit / (Surplus) Brought Forward	4	17,109
17,109	Business Rates Deficit / (Surplus) Carried Forward	4	(13,203)
14,350	Total Collection Fund (Surplus) / Deficit	4	(12,303)

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

1. Introduction

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and Non-domestic Rates (NDR) and its distribution to local government bodies and the Government.

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore is to isolate the income and expenditure relating to Council Tax and NDR. The administration costs associated with the collection processes are charged to the General Fund.

Collection Fund surpluses and deficits declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies, normally in the subsequent financial year. To reduce the financial impact in any one year of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government made regulations to require the 2020/21 in-year deficit as estimated in January 2021 to be spread over 3 years, starting in 2021/22. One third of this estimated exceptional loss was recovered from precepting bodies in 2022/23, with the remaining one third to be recovered in 2023/24. For Southampton, Council Tax precepting bodies are the Police & Crime Commissioner for Hampshire and the Isle of Wight and the Hampshire and Isle of Wight Fire & Rescue Authority.

The Retained Business Rates Scheme allows the Council to retain a proportion of the total NDR received. For 2022/23 the Council was part of the standard 50% Business Rates Retention Scheme. The Council share of NDR rates was 49% with the remainder paid to Central Government (50%) and Hampshire and Isle of Wight Fire & Rescue Authority (1%) (the same proportions applied for 2021/22). NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies, normally in the subsequent financial year in their respective proportions. As with Council Tax, the government made regulations to require the 2020/21 in-year deficit estimated in January 2021 (excluding the element relating to additional reliefs relating to the pandemic being funded from S31 Business Rates Grant) to be spread over 3 years, starting in 2021/22. One third of this estimated exceptional loss was recovered from precepting bodies in 2022/23, with the remaining one third to be recovered in 2023/24.

2. Council Tax Base

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 9 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council in the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

The Council Tax base for 2022/23 was 67,153 (2021/22 66,108). The tax base for 2022/23 was calculated as follows:

	Council Tax Base		
	Net Chargeable Dwellings	Relevant Proportion	Band D Equivalents
Band A Disabled	38.1	5/9	21.2
Band A	21,681.9	6/9	14,454.6
Band B	27,251.2	7/9	21,195.4
Band C	19,431.3	8/9	17,272.3
Band D	8,339.9	9/9	8,339.9
Band E	2,751.2	11/9	3,362.6
Band F	1,280.8	13/9	1,850.0
Band G	388.9	15/9	648.2
Band H	4.5	18/9	9.0
	81,167.8		67,153.2

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Taking the total Band D equivalents of 67,153 (2021/22 66,108) and multiplying this by the standard Council Tax of £1,956.28 (2021/22 £1,941.28) gives a total estimated income from taxpayers of £131.4M (2021/22 £128.3M). The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which was 98.5%, giving a net Council Tax Base of 66,146. Multiplying this by the standard Council Tax of £1,956.28 gives the total precepts on the Collection Fund of £129.4M (66,146 multiplied by £1,956.28 - £125.0M 2021/22).

3. Non-Domestic Rates (NDR)

The Business Rates Retention Scheme was introduced from 1 April 2013 whereby Business Rates collected by billing authorities are shared 50:50 between local and central government. Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities were estimated to receive their baseline funding amount. Tariffs due from authorities, payable to Central Government, are used to finance top-ups to those authorities who were not estimated to achieve their targeted baseline funding. In addition, a 'safety net' figure is calculated at 92.5% of the baseline funding amount which ensures that authorities are protected to this level of Business Rate income.

The Council in 2022/23 estimated NDR income of approximately £91.2M (2021/22 £99.6M), £44.7M (2021/22 £48.8M) retained by the Council, £0.9M (2021/22 £1.0M) payable to Hampshire and Isle of Wight Fire & Rescue Authority and £45.6M payable to Central Government (2021/22 £49.8M). The Rateable Value on 31 March 2023 was £262.1M (2021/22 £263.7M) and the Business Rate Multiplier for the year 49.9p (2021/22 49.9p) in the £, giving gross rates before reliefs of £130.8M (2021/22 £131.6M).

4. Collection Fund Balance

The total Collection Fund surplus carried forward for the year is £12.3M (2021/22 £14.4M deficit). An analysis of the balance showing the in-year (surplus)/deficit and cumulative position is provided in the following table:

	<u>In Year</u>			<u>Cumulative</u>		
	<u>Council Tax</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Business Rates</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Total</u>	<u>Council Tax</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Business Rates</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Central Government		(15,156)	(15,156)		(6,602)	(6,602)
Southampton City Council	3,094	(14,853)	(11,759)	758	(6,470)	(5,712)
Hampshire & IOW FRA	134	(303)	(169)	34	(131)	(97)
Hampshire & IOW PCC	431		431	108		108
Balance as at 31 March	3,659	(30,312)	(26,653)	900	(13,203)	(12,303)

GLOSSARY

1. Accruals

The concept that income and expenditure is recognised as it is earned or incurred; not as money is received or paid.

2. Amortised Cost

A way of measuring financial instruments that ignores changes in fair value.

3. Budget

The Council's aims and policies set out in financial terms against which performance is monitored. Both revenue and capital budgets are prepared.

4. Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

5. Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which enhances and not merely maintains the value or increases the life of an existing fixed asset.

6. Capital Receipts

The proceeds from the sale of capital assets.

7. Community Assets

Assets that the Council intends to hold in perpetuity and that may have restrictions on their disposal. Examples of community assets are parks, open spaces, and allotments.

8. Contingency

A situation which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

9. Council Tax

A local tax levied by a local authority on its citizens.

10. Creditor

Money owed by the Council to others for goods or services that have been supplied in the accounting period but not paid for.

11. Current Value

The measurement bases for property, plant and equipment, reflecting the economic environment for the service the item is supporting.

12. Debtor

Money owed to the Council for goods or services we have supplied to others that they have received but have not paid for by the end of the accounting period.

13. Depreciation

The measure of wearing out, consumption, or other reduction in the useful economic life of a fixed asset, arising from use, passage of time, obsolescence or other changes.

14. Effective Interest Rate (EIR)

The effective interest rate is the true rate of interest earned. It could also be referred to as the

GLOSSARY

market interest rate, the yield to maturity, the discount rate, the internal rate of return, the annual percentage rate (APR), and the targeted or required interest rate.

15. Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

16. Financial Assets

A right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

17. Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

18. Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability, or equity instrument, of another entity.

19. Financial Liability

An obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

20. Financial Reporting Standard (FRS)

Statements issued by the Accounting Standards Board (ASB) specifying the treatment and disclosure of certain events and transactions in the preparation and publication of accounting statements.

21. General Fund

The division of the Council's accounts covering services paid for by the precept on the Collection Fund for council tax and its share of business rates.

22. Government Grants

Government assistance whether in the form of cash or transfers of assets in return for compliance with certain conditions relating to the activities of the Council.

23. Heritage Assets

Heritage Assets are those assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities.

24. Housing Revenue Account

The division of the Council's accounts that covers services relating to the provision of Council housing.

25. Impairment

A reduction in the value of a fixed asset, as shown in the balance sheet, to reflect its true value.

26. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

GLOSSARY

27. International Financial Reporting Standards (IFRS's)

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS's are issued by the International Accounting Standards Board (IASB).

28. Long Term Investments

An investment that is intended to be held for use on a continuing basis in the activities of the Council.

29. Materiality

This is one of the main accounting concepts. It ensures that the Financial Statements include all the transactions that, if omitted, misstated or obscured, could reasonably be expected to influence decisions that primary users make on the basis of the Financial Statements.

30. Minimum Revenue Provision (MRP)

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

31. Money Market Funds

Pooled funds which invest in a range of short term assets (MMF) providing high credit quality and high liquidity.

32. Non Domestic Rates Retention

Business rate levied on companies, firms etc, collected by the Council as the billing authority and paid in specified shares to Central Government, Southampton City Council and Hampshire and Isle of Wight Fire & Rescue Authority.

33. Net Book Value

The amount at which Property Plant and Equipment are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

34. Net Expenditure

Total expenditure for a service less directly related income.

35. Net Realisable Value

The open market value of the asset in its existing use, (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

36. Non-Operational Assets

Property Plant and Equipment held by the Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

37. Operating Leases

A lease other than a finance lease (see 17).

38. Operational Assets

Property Plant and Equipment held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

39. Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts are signed by the responsible financial officer.

GLOSSARY

40. Prepayments

Payments made by the Council in advance of goods or services being supplied.

41. Private Finance Initiative (PFI)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

42. Property, Plant and Equipment

Tangible assets that benefit the Council and the services it provides for a period of more than one year.

43. Provision

A liability of the Council where there is uncertainty about when it will be settled and/or how much the Council will have to pay.

44. Public Works Loans Board (PWLB)

The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

45. Receipts in Advance

Payments taken by the Council in advance of goods or services being supplied to recipients.

46. Reserves

The balances in the Balance Sheet that show variously the revenue and capital resources available to support the provision of services by the Council, the cumulative effect of statutory adjustments to manage the availability of those resources for particular financial years, and balances of revaluation gains and losses on assets that have yet to be realised.

47. Revaluation Reserve

The Revaluation Reserve is an unusable reserve that contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment.

48. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure which may properly be deferred, but which does not result in a tangible asset. An example of revenue expenditure funded from capital under statute is expenditure on improvement grants. These were previously referred to as deferred charges.

49. Revenue Expenditure / Income

The cost or income associated with the day-to-day running of the services and financing costs.

50. Stock

Comprise the following categories:

- Goods or other assets purchased for resale;
- Consumable stores;
- Raw materials and components purchased for incorporation into products for sale;
- Products and services in intermediate stages of completion;

GLOSSARY

- Long-term contract balances;
- Finished goods.

51. Trade Payables

The amounts that the Council owes for goods and services that it has received in the course of its normal activities but which have yet to be paid for.

52. Trade Receivables

The amounts that the Council is owed for goods and services that it has provided in the course of its normal activities but which have yet to be paid for.

53. Treasury Management

The management of the Council's debt and investment of surplus funds.

54. Useful Life

The period over which the Council will derive benefits from the use of a fixed asset.

SCOPE OF RESPONSIBILITY

Southampton City Council (“the council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently, and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the ‘Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). A copy of the code is on our website at:

<http://www.southampton.gov.uk/council-democracy/corp-governance/>

or can be obtained from the:

Director of Governance, Legal and HR
Southampton City Council,
Civic Centre,
Southampton,
SO14 7LY

This statement explains how the council has complied with the local code and meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures, and values by which the council is directed and controlled and its activities through which it accounts to, engages with, and leads its communities. To demonstrate compliance with the principles of good corporate governance, the council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner.

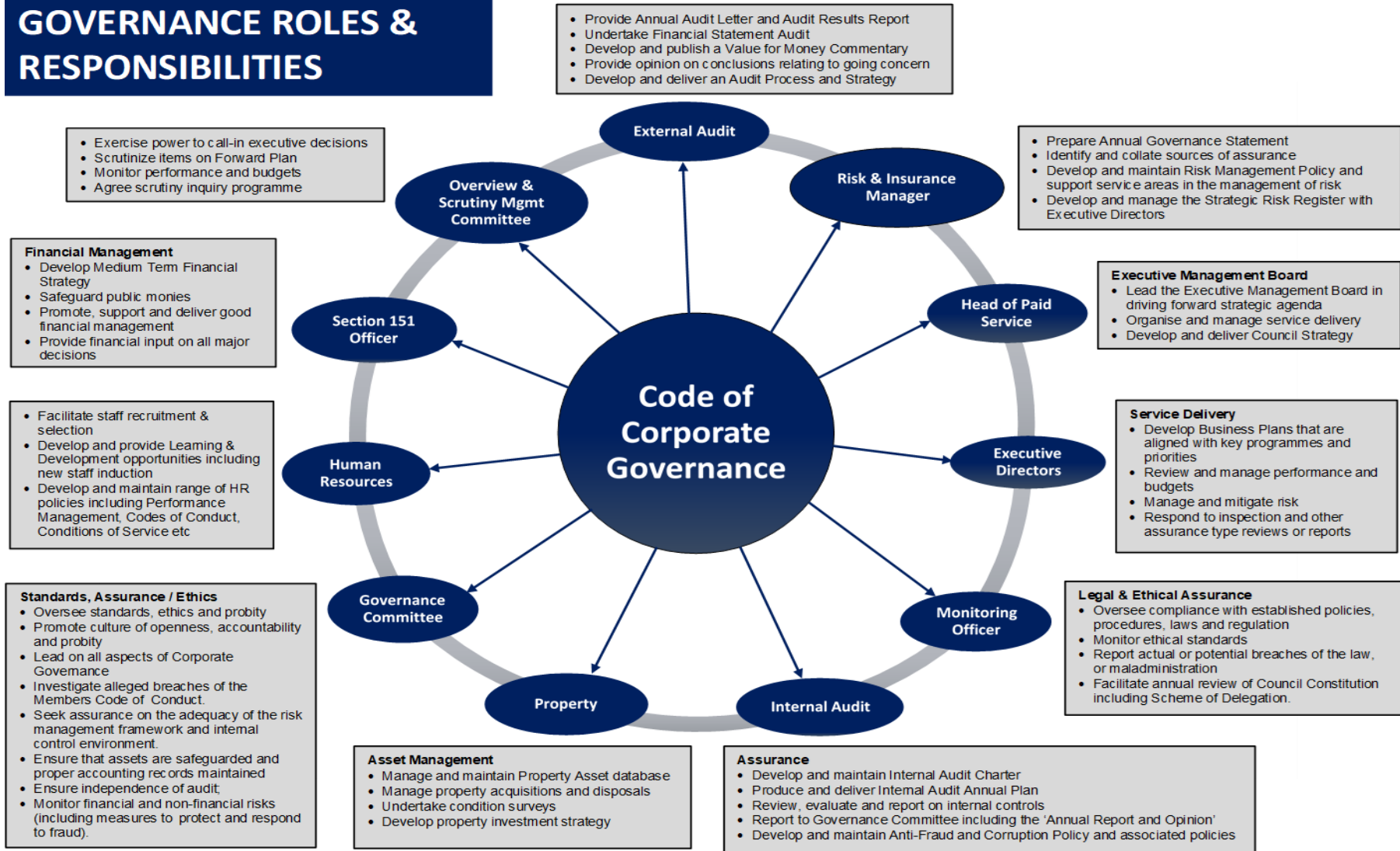
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk.

The system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council’s policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively, and economically.

The governance framework has been in place at the council for the year ended 31st March 2023 and up to the date of approval of the statement of accounts.

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GOVERNANCE ROLES & RESPONSIBILITIES



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The Governance Framework

The fundamental function of good governance is to ensure that the council achieves its intended outcomes while acting in the public interest at all times. The following core, high level, principles in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

The council's Constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent, and accountable to local people. Some of these processes are required by the law, while others are a matter for the council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the council's business. The Constitution is published on the council's website at:

<http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

The Constitution includes both Officers' and Members' Codes of Conduct which set out the expected behaviour and standards to be adhered to. In addition, there is a Code of Conduct for Employees which states the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

The Director of Governance, Legal and HR is the 'Monitoring Officer' and has responsibility for ensuring compliance with established policies, procedures, laws, and regulations, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

A 'Whistleblowing Policy' (Duty to Act) is in place and published on the council's website. Whistleblowing is a way for employees to raise reasonably and honestly held concerns they may have about serious matters that could put the council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment.

As part of the commitment to safeguard public funds there is an 'Anti-Fraud, Bribery and Corruption Policy' that applies to any actual or suspected internal or external fraud, bribery, corruption, and dishonest dealing that involve the council and or its Members and staff. It also applies to contractors, suppliers, partners, agents, intermediaries, and service users. The council also has in place an 'Anti-Money Laundering' policy which sets out the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. This policy details the procedures that must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations.

Investigations and special reviews into suspected fraud or irregularities are overseen by an 'Investigation Steering Panel', comprising the Monitoring Officer, Chief Internal Auditor and the Section 151 Officer (Executive Director Corporate Services).

The council takes any complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and use these valuable opportunities to learn and improve for the future. There is a Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' that is published on the council's website and explains how to make a complaint and how it will be dealt with. There is also a separate 'Children Statutory Complaint Procedure' which is also published on the council's website.

In addition, a "paper" complaints form is made available at "in person" contact points e.g. Libraries and Housing Offices etc, in order to make complaints compliments and comments accessible to those without internet access. Complaints relating to the conduct of Members are dealt with under the Members' Code of Conduct.

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On an annual basis the Director of Governance, Legal and HR presents a report council's Governance Committee on 'Local Government and Social Care Ombudsman Complaints' and a separate report on 'The Members' Code of Conduct'.

The council's 'Social Value and Green City Procurement Policy' reflects a commitment to proactively work to ensure that all goods, works and services that it procures are sourced ethically and sustainably; both in the way the council procures and in terms of the standards that the council expects its suppliers, service providers and contractors to meet.

The council also has in place a Modern Slavery and Human Trafficking Statement sets out the Council's current position and future plans to understand all potential modern slavery risks related to its business and to put in place steps that are aimed at ensuring that there is no slavery or human trafficking in its own business and/or in its supply chains. In addition, there is e-learning training and associated guidance available to all staff.

Principle B: Ensuring openness and comprehensive stakeholder engagement

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought. The council's website includes a 'Have your say' section which provides information to residents, customers, and other stakeholders on how they can 'have their say' on various issues, including via:

- Consultations
- Surveys and research
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

Southampton City Council, in conjunction with other local public service providers, runs a telephone survey normally every two years to collect resident views on a range of topics. It provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. Surveys have been conducted in 2014, 2016, 2018 and 2020. Each year a set of common Local Government Association (LGA) questions are included, which allows Southampton to be benchmarked against the national average and for trends to be tracked over time, as well as questions relating to emerging priority areas. The latest survey ran between October 2020 and December 2020 and included questions on:

- Opinion on the local area
- Opinion on Council and other public services
- Communications and Digital exclusion
- Employment
- City of Culture bid
- Transport
- Wellbeing

The results from the 2020 Southampton City Survey, together with past reports, can be downloaded from the council's website. The next City Survey is planned for later in 2023.

Between 31st October 2022 and 3rd January 2023 1,600 people responded to the latest consultation on the Southampton City Vision which will be the council's new Local Plan and will set out the future development of new homes, workspaces, infrastructure and facilities across the city over the next 20 years and beyond. responders were asked how they felt about 14 key objectives of the Draft Southampton City Vision Local Plan and which of the key objectives were the most important.

The council has in place a 'People's Panel', which is open to any resident over the age of 18 to join, and comprises a group of residents who take part in surveys and other opportunities to express their views on

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council services, health services and living in the city and provides an opportunity to influence how services are delivered, highlight issues, and help shape public services in the community. Run by Southampton City Council, and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from our surveys have been used to inform a number of decisions and service changes. In order to understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity, and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

There is a strong focus on children and young people in the city, and in 2022, Southampton City Council started working with UNICEF UK to become a [Child Friendly City](#). The programme aims to create cities and communities in the UK where all children – whether they are living in care, using a children's centre, or simply visiting their local library – have a meaningful say in, and truly benefit from, the local decisions, services and spaces that shape their lives.

Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

Following the local elections in May 2022, a new 2022-30 Corporate Plan was developed which sets out the council's direction for the next eight years and shows how it will play its part in fulfilling the city's huge potential. The Corporate Plan articulates the organisational vision, goals and areas of focus of the Council over the next eight years and aligns to other key strategies across the Council such as Health and Wellbeing, Safe City Partnership, Economic and Green Growth and Children and Young People.

The Corporate Plan identifies four organisational goals for the city, and through this plan it outlines what those goals are, why they are being focusing on, and things we are being done both as a council and as a city to achieve them and recognising the importance of working with partners and other organisations in order to be able to 'deliver a city of opportunity'.



The performance management framework for the Corporate Plan comprises implementation plans delivered through service business plans, strategies, and where appropriate, specific project plans together with monitoring through Cabinet Member briefings and a review and update of the Corporate Plan after two years.

To achieve the council's priority outcomes employees are expected to demonstrate the council's organisational values. These reflect the importance that the council places on behaviours, and the way that employees engage with customers, partners, and colleagues.



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There are also other key strategies that reflect the vision and ambition of both the city and wider region, including the Southampton City Strategy (2015-2025) which is a partnership strategy that sets out the vision for the whole city. Southampton Connect is responsible for the delivery of the Southampton City Strategy with the vision that Southampton is a city of opportunity where everyone thrives. Southampton Connect is an independent partnership which brings together senior city representatives seeking to address the key challenges and opportunities for Southampton and working with the city's key partners to improve the outcomes of the people of Southampton.

At a sub-regional level there is a triumvirate of key strategic organisations, the Partnership for South Hampshire ('PFSH'), the Solent Local Enterprise Partnership ('LEP') and Solent Transport, that manage the policy agenda in the sub-region.

The PFSH is a partnership of twelve local authorities around the Solent, including Southampton City Council, that aims to improve the environmental, cultural, and economic performance of the South Hampshire area. The PFSH brings the partner organisations together at both a political and managerial level with a 2021-2025 Business Plan that sets out the focus of its' work. The PFSH is focused on supporting economic growth, delivery of housing and the infrastructure to achieve this in a sustainable manner, and to maintain and enhance the quality of the environment. The PFSH work will be a key element in developing statutory planning policy for the city by [a] demonstrating at a strategic level that the 'duty to cooperate' requirements are being achieved and [b] in helping to identify how housing growth and related infrastructure can be delivered to meet the needs of the city within a sub-regional context. The PFSH engages with a range of other local organisations, stakeholders, and Government to achieve these aims.

The Solent LEP is a locally owned partnership between the business community and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs. The Board of the LEP is drawn from the area's key business, universities, the further education sector, and local authorities. In 2021, a national review of the future role of LEPs was commissioned and a Levelling-Up White Paper, published in February 2022, set a course for LEPs and their future relationship with national and local government.

In the Spring Budget 2023 the announcement was made that the government intends for the functions of Local Enterprise Partnerships (LEPs) to be delivered by local government in the future. Therefore, the government is minded to withdraw central government support for LEPs from April 2024. DLUHC and the Department for Business and Trade will now consult on these proposals, before confirming a decision.

Solent Transport is a sub-regional transport partnership that comprises Portsmouth, Southampton, the Isle of Wight, and Hampshire County Council. Solent Transport and its partner bodies are important members of Transport for the South East. The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence, and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders, and other agencies to deliver transport infrastructure, networks, and systems crucial to keep the region moving and generate economic growth, wealth, and sustainability.

In July 2021, Government invited expressions of interest from Local Authorities who were interested in progressing dialogue over devolution of powers through a 'County Deal' approach. Hampshire County Council unilaterally submitted their prospectus for a County Deal to Government in October 2022. Subsequent discussions between Government officials and Chief Executives of the upper tier authorities have taken place, but there remains a substantial amount of work ahead, if any deal can progress, with geography and governance remaining as critical issues.

Southampton Council is a Member of the Solent Freeport consortium. The Solent Freeport will encompass Southampton and Portsmouth, as well as areas of the New Forest, Isle of Wight, and southern Hampshire. Freeports are an important Government programme that are expected to play an important part in the UK's post-Covid and post-Brexit economic recovery, boosting the local economy and creating additional local jobs. Freeport status means that normal tax and customs rules do not apply and varying forms of tariff flexibility, tax measures and planning concessions deployed by the Government should help to incentivize private sector investment.

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During 2022/23, the Government accepted the final business case of the Consortium and granted Freeport status. Southampton City Council is a member of the Freeport Board. The Freeport has access to seed capital funding from Government plus freeports will benefit from retaining 100% of the growth in their business rates over the 25-year life of the Freeport. Participant rating authorities in the Freeport have agreed to 'pool' the business rate proceeds to support the objectives of the Freeport. This benefit has been estimated as being worth £485M over 25 years. An investment plan is being finalised by the Freeport as part of the requirements by Government but noting that investment in the short term will be critical to delivering attractive opportunities for business in order to maximise retained rates generated. To overcome this short-term issue, some initial "pump prime investment" will be considered. This could come from local authority borrowing. The Accountable Body (Portsmouth City Council) are clear they will underwrite borrowing risks. There is no proposal for Southampton City Council to borrow to finance the investment needed.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

The council has in place a robust decision-making process that clearly sets out the actions and accountability in terms of when, how and by whom decisions are taken and where responsibility for decisions making rests. All decision reports are required to be submitted using a standard report template which identifies the 'Decision Maker', the decision or action required, why it is recommended, alternative options considered together with a 'Detail' (including Consultation carried out) section. The template also includes separate sections detailing any Financial/Resource, Legal, Risk and Policy implications. Where appropriate these comment on how proposals will be paid for, the statutory power to undertake the action and/or relevant legislation that affect the proposals, any significant risks associated with the decision that need to be considered and confirmation that the proposals are in accordance with the council's approved Policy Framework. Report authors are required to consult with relevant departments as part of the preparation and development of a report. This will always include Democratic Support, Corporate Legal and Finance but may also include Property, IT etc if the proposals within the draft report are relevant to these areas. All decision reports are signed off by the relevant Executive Director and Cabinet Member.

The council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme and monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

In 2022 the Council, through the LGA, commissioned the Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review to assist the council to consider how it might enhance its approach to governance and decision-making. The CfGS is a nationally recognised charity which supports local authorities to ensure sound governance practices are in place and is an independent body and this work was undertaken at no cost to the council. In particular the review considered and commented on:

- The consistency of decision-making systems
- The speed of those systems
- Clarity in who leads on, and makes, decisions
- Checks and balances with regard to the above
- The expectations of both members and officers with regard to the above

The review was based on a range of interviews with members and officers, detailed examination of a very small number of recent decisions, supplemented by a more general review of Cabinet and scrutiny committee papers, the Forward Plan and other relevant material. A final draft report was presented in the Summer 2022 for consideration and initial thoughts and observations. The CfGS reflected on those responses and produced the final report in September 2022 which was subsequently presented to the

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council's Governance Committee in November 2022. Following that, a 10 point Action Plan has been formulated, agreed by political Group Leaders and is now being implemented incrementally over the next 6 months.

Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

The council's Workforce Strategy was replaced in January 2023 by a People Strategy that aims to create an organisation where people can be the best of themselves, grow and do their finest work, making Southampton a city of opportunity. The People Strategy sets out a high-level vision, priorities, and outcomes under six themes:

1. Understand the people we need and get the right people in
2. Have the right people as managers
3. Pay, reward and recognise in the right way
4. Keep people engaged, working to adapt and improve
5. Taking ownership and adding value
6. People who can thrive and grow

The People Strategy is a key document that sits alongside both the Medium-Term Financial Strategy and the Customer Strategy and takes account of challenges in relation to the overall council budget. It is used to inform resource allocation decisions, organisational development, and drive positive change and the delivery of agreed outcomes.

The council has in place leadership development modules for senior leaders intended to allow them to learn, and share insights and expertise based on the following development areas:

- Strategic Thinking
- Continuous Improvement
- Leading Change
- Systems Leadership
- Creative Thinking and Innovation

There are also learning modules and programmes in place aimed at people new to line managing others, existing team leaders, and managers up to middle managers. These are based on the council's core values and built around the leadership competencies with one of the modules being 'Ethics and Values' which explores the seven principles of public life and the values and behaviours that underpin these.

In respect of Elected Members, a revised internal Member Induction and Development programme is in place and offers a suite of learning and development opportunities via targeted service focused sessions or via a monthly briefing programme. Alongside the internal offer, a range of externally delivered training events and courses were delivered by the 'Local Government Association, the Local Government Information Unit and South East Employers. These opportunities ranged from 'being a new councillor', supported skill development such as chairing meetings, speed reading and retention, to portfolio based and leadership development training. Following a view of the Member Learning and Development in 2021, a refreshed programme was offered for the 2022/23 financial year comprising a wide range of training and development events, this has been refreshed further and endorsed by the LGA as comprehensive. Following the Centre for Governance & Scrutiny (CfGS) review and recommendations there will be further emphasis during 2023/24 to encourage members to take up opportunities that are being offered via the programme.

The council also has in place an equalities policy which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves.

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Principle F: Managing risk and performance through robust internal control and strong public financial management

The council's Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with the Chartered Institute of Public Finance and Accountancy ('CIPFA') guidance. The Committee receives a range of periodic reports relating to both the internal control environment and financial management, including receiving the draft Statement of Accounts.

Risk management is an essential component of the Council's overall governance and internal control arrangements and provides the framework and processes to enable the council to manage risk in a systematic, consistent and efficient way.

The Governance Committee receives an annual Risk Management report that summarises the framework and arrangements that the council has in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. The report also provides information on the key risk management activities and initiatives undertaken in the year and those planned for the next 12 months. The council also has a 'Risk Management Policy' that sets out the framework, arrangements, and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities are identified and managed. This policy is intended to support the application of robust risk management principles and practices across all service areas. There is also a range of associated guidance documents, templates, and other tools to support officers in identifying and managing risk.

A key element of the council's risk management framework is the council's Strategic Risk Register which is developed in consultation with Executive Directors. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. The Strategic Risk Register is updated on a quarterly basis with a report presented to the council's Executive Management Board. The report identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary. Risk management is increasingly being used to assess the impacts and risks to the council and its services arising from unforeseen events for example the cost-of-living crisis.

Effective financial management is key to managing the delivery of a vast range of council services either directly or through/with others and ultimately improving the quality of life for residents. The council's Medium Term Financial Strategy ('MTFS') 2022/23 – 2025/26 provides a strategic financial framework and a forward looking approach to achieving long term financial sustainability for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It also aids robust and methodical planning as it forecasts the council's financial position taking into account known pressures, major issues affecting the council's finances, including external economic influences as well as local priorities and factors.

The MTFS helps the council to respond, in a considered manner, to pressures and changes as a result of internal and external influences. This is particularly important during a period when the council faces considerable pressures and challenges, such as those relating to the cost-of-living crisis, the increased demand for social care etc. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term. The key objectives of the MTFS is to:

- Provide financial parameters within which budget and service planning should take place.
- Ensure that the council sets a balanced and sustainable budget.
- Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of clear alignment between priority and affordability.

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- Ensure that the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area and, where ring-fenced government funding is reduced, the service area takes action to reduce expenditure accordingly.
- Plan the level of fees, charges and taxation in line with levels that the council regard as being necessary, acceptable and affordable to meet the council's aims, objectives, policies and priorities whilst gradually reducing the council's reliance on Central Government funding.
- Ensure that the council's long term financial health and viability remain sound.

The MTFS enables integrated service and financial planning over the medium term, using a business planning approach. The resulting Medium Term Financial Model provides the framework within which decisions relating to future service provision can be made.

The Chartered Institute of Public Finance and Accountancy ('CIPFA') published a Financial Management Code ('FM Code') for authorities to adhere to, which first applied in 2021/22. The FM Code is designed to support good practice in financial management and promote financial sustainability by setting out the principles of good financial management. Initial work on how the council compared with the standards expected in the FM Code did indicate areas for improvement and this finding was discussed with the Executive Management Board and also formally reported to the council's Governance Committee in February 2022. Actions were identified, to improve compliance, as a part of that report.

One of the major issues that the review drew out was that the scale of the future budget deficit represented a significant risk and needed addressing via further work and progressing longer term plans. This was very clearly articulated in the budget report considered at the Council meeting in February 2023 and included the following statement made by the S151 officer "Financial resilience is much weakened by depleting reserves, and a S114 notice is foreseeable and a major risk during 2023/24". The budget pressure faced during 2022-23 and reflected in the budget for 2023-24 include amongst other things the impact of high inflation, higher than expected pay awards, rising interest rates and demand pressure on services. All have contributed to difficulties in making progress with the budget shortfall issues and a more financially sustainable Medium Term Financial Strategy for the authority.

The new S151 officer has, as part of the strategy to begin to tackle the financial challenges, commissioned the CIPFA to review the overall financial standing of the council and the processes applied by the authority when managing its resources. This review will focus on actions needed to improve the council's financial resilience and future budget positions. It will also build upon and supplement the work undertaken in relation to the FM Code.

The council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government. The Executive Director Corporate Services (Section 151 Officer and CFO) is professionally qualified and is a key member of the Executive Management Board and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and also alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

All areas of the council should have in place 'Business Plans' at service level that are aligned with the council's priorities and outcomes as set out in the Corporate Plan. The business plans provide an overview of the services being delivered together with the outcomes (and outputs) that are looking to be achieved. The council undertakes an annual business planning and budgeting process with all Service Business plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. An important part of the process is the 'sustainability/challenge' sessions that focus on current and future service costs including opportunities for income growth. During 2023-24 a reinvigorated business planning approach will be designed to better support business and budget planning for the medium term.

All significant commercial partnership working arrangements also have a range of performance indicators which are used to monitor, verify, and manage service performance. The council is committed

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to achieving best value from its procurement activities and contracts and ensuring that goods, services, and works are procured, and contract managed in the most efficient and effective way throughout the lifecycle of the contract. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. Contract Management Teams in the Supplier Management Team and the Integrated Commissioning Unit support the council in managing contracts throughout the lifecycle of the contract and provide senior management interfaces between the council and our partnership service providers.

Principle G: Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

The council is committed to openness and transparency and publishing as much council data as it can in order to increase accountability. The 'Council Data' page on the council's website allows the public to access a wide range of information and data that is published in accordance with the Local Government Transparency Code (2015).

The council's Constitution sets out how decisions are made and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the council and by council bodies acting as tribunals. The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Director of Governance, Legal and HR (Monitoring Officer).

The council produces a Forward Plan of all Key Decisions which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and are published on the council's website.

The council's assurance arrangements conform to the governance requirements of the CIPFA statement on 'The Role of the Head of Internal Audit in Public Service Organisations (2019 Edition)'. This is aligned with the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment.

The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality, and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and, in particular, those who serve on committees charged with governance (e.g. the Governance Committee).

REVIEW OF EFFECTIVENESS

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is led by a 'Controls Assurance Management Group' comprising the Executive Director Corporate Services (Section 151 Officer), Chair of the Governance Committee, Director of Governance, Legal and HR (Monitoring Officer) and the Chief Internal Auditor.

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

- The views of Internal Audit regularly reported to Governance Committee via periodic 'Internal Audit: Progress Reports' which include executive summaries of new reviews undertaken in the period and noting that any audits rated as 'No Assurance' are specifically highlighted to the Governance

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Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.

- The views of external auditors, reported to the Governance Committee, including the Audit Planning report, the Annual Audit Letter, the Audit Results Report, and the Auditor's Annual Report.
- The Chief Internal Auditors 'Annual Report and Opinion' for 2022-23 was that, in summary, the significant financial pressures which have escalated during 2022-23 along with an increased emerging strain on the internal control framework have resulted in an opinion level of 'limited assurance' being attributed. The previous years assessment of 'reasonable assurance' was provided following two years of sustained improvement and no indications of systemic failings. It was previously noted that there were examples across the council where further work was required to enhance the control environment, this requirement has grown following structural changes, changes in key staff and organisational transformational changes. This position is likely to deteriorate further over the course of 2023-24 and audit work will remain flexible to align to the council's risk exposure.
- The Internal Audit Charter and delivery of the annual Internal Audit plan.
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment.
- The completion of 'AGS Self-Assessment Statements' that cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required. The self-assessments are completed by Heads of Service for their service areas to ensure that the most representative and comprehensive oversight is obtained. The returns are then reviewed and signed off by the relevant Executive Director.
- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls.
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission and including any external reviews that the council may choose to commission such as the exercise undertaken by the Centre for Governance and Scrutiny or CIPFA.
- The annual Risk Management report that is presented to the Governance Committee.
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1. Governance Issue

In 2022 the Council, through the LGA, commissioned the Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review to assist the council to consider how it might enhance its approach to governance and decision-making. Their final report was presented to the council's Governance Committee in November 2022 and, following that, a 10-point Action Plan was formulated

ANNUAL GOVERNANCE STATEMENT

and agreed by political Group Leaders. The action plan is being implemented incrementally over the next 6 months, both pre and post May elections.

Action taken: The agreed Action Plan has been implemented with the exception of one significant (and ongoing developmental) action of improved report writing, consistency of approach to formal decision making including specifically ESAs (impact assessments). This was to be progressed through externally facilitated workshops by CfGS and the LGA however these had to be deferred due to CfGS's work programme being refocussed to support other authorities. These are now planned for Autumn 2024.

Additionally, a more fundamental review of both corporate governance and the Constitution is scheduled for the second half of the 2024/25.

Status: One action outstanding otherwise completed

Responsible Officer: Director of Legal and Governance

2. Governance Issue

As part of the council's strategy to begin to tackle its significant financial challenge it has commissioned the Chartered Institute of Public Finance and Accountancy ('CIPFA') to review the overall financial standing of the council and the processes applied by the authority when managing its resources. This review will focus on actions needed to improve the council's financial resilience and future budget positions. It will also build upon and supplement the work undertaken in 2022-23 in relation to the CIPFA Financial Management ('FM') Code.

Action taken: The Chartered Institute of Public Finance and Accountancy (CIPFA) subsequent report was presented to full council and follow-up work commissioned around the robustness of the Medium Term Financial Strategy and to clarify the likely savings requirement and 'road test' it with likely scenarios. CIPFA made a number of recommendations to strengthen the council's financial management arrangements and a 'Financial Management Improvement Plan' was subsequently developed and approved for implementation in 24-25.

Status: Completed

Responsible Officer: Executive Director Corporate Services (now the Director of Finance / Executive Director Enabling Services)

3. Governance Issue

The current service business planning process needs to be refreshed and updated in order to ensure that it better supports business and budget planning, and is aligned with the new Corporate Plan and informs the council's Medium Term Financial Plan.

Action taken: A revised business planning framework was agreed which aligns business plans to the Corporate Plan and the MTFS. This will be rolled out early in the 2024/25 financial year and aligned to City and Corporate Plans going forward. This is supported by a cross organisational Business Planning & Performance group which is responsible for appropriate application of the framework and continuity of business planning across SCC, including ensuring that plans are shared across the group and more widely so that each area is fully understood and supported by others.

Status: Completed

Responsible Officer: Director of Strategy and Performance

4. Governance Issue

Although a new 'Talent Management and Succession Planning Strategy' (developed in 2022) is now in place it is recognised that there is still a way to go before there are well developed succession plans

ANNUAL GOVERNANCE STATEMENT

in place across the council. Currently there is inconsistency in respect of the extent to which succession planning has been formally considered within service areas across the council.

Action taken: The 'Talent Management and Succession Planning Strategy' was absorbed within the wider 'Our People' Strategy however it is recognised that there is still a way to go before there are well developed succession plans in place across the council. Currently there is inconsistency in respect of the extent to which succession planning has been formally considered within service areas across the council. The 'Our People' action plan will continue to be implemented across the organisation with the support of the respective Human Resources and Finance Business Partners, and the Organisational Development Team, including the introduction of a Succession Planning tool for managers to use. This will be ongoing throughout 2024-25 with updated position reflected in the 2024-25 AGS Self-Assessment returns from Heads of Service (in Q4 2024-25).

Status: Ongoing

Responsible Officer: Head of Human Resources & Organisational Development

5. Governance Issue

The council has in place a well-developed Performance and Development Review (PDR) process however there are pockets across the organisation where the process is still not embedded within the service.

The PDR process is also important in that it identifies any learning needs as well as ensuring that required mandatory e-Learning training courses / 'essentials' reading have been completed. The latter 'essentials' include Anti-fraud and corruption strategy, Anti-Money laundering, Bribery Act, Gifts and Hospitality declaration and Whistleblowing.

Action taken: HR issued a reminder to all services regarding the importance of the annual PDR process and the timescales in terms of completion and upload of the PDR documents onto the HR Module within Business World. HR reviewed the returns on directorate level basis via HR Business Partners who shared feedback and information and with the respective Directorate Management Team.

Status: Completed

Responsible Officer: Head of Human Resources & Organisational Development

The above steps were taken to address the above matters to further enhance our governance arrangements. We are satisfied that these steps address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

.....
Andrew Travers
Chief Executive

On behalf of Southampton City Council

.....
Councillor Lorna Fielker
Leader of the Council

AUDITOR'S REPORT

Southampton City Council External Audit Progress Report

September 2024

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Building a Better
working world

Agenda Item 6

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.


The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code), and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01 2022/23 audit



2022/23 Audit status

Status of the audit

The new Minister of State responsible for Local Government and English Devolution made a statement to parliament on Tuesday 30 July 2024, setting out the Government's policy proposal for addressing the local government audit backlog. This statement outlines immediate actions the Government - together with the Financial Reporting Council (FRC), the National Audit Office (NAO) and organisations in the wider system - is taking, which are designed to address the backlog and put local audit on a sustainable footing. These now provide helpful clarity on the government's policy intentions and recognise the commitment of finance teams and auditors and the important role that we will all play to restore timely financial reporting.

We have previously discussed with you our intention to disclaim your 2022/23 audit as part of our strategy to reset our local public audits, clear the backlog, and focus our efforts on providing assurance on the most recent financial information.

The Minister's statement establishes the intent for the backstop date of 13 December 2024 for this to be completed.

While further guidance remains to be issued, we have been working with the system leaders to understand what their expectations will be on all auditors to implement the government's policy proposals effectively. We have also reviewed the auditing standards and the work required to move to a disclaimed opinion. Primarily, whilst we do not need to complete detailed testing of the financial statements we do need to review them, complete certain tasks to plan our approach to the audit, understand the business, get updates on key areas to ensure that we are sighted on developments, form a view on aspects that we report on, and communicate the outcome of this work to those charged with governance.

Once we have completed our work, we will issue our audit completion report for those charged with governance per authority that includes:

- details of the work undertaken for planning;
- the results from the work completed for this process; and
- our value for money commentary, as previously presented to the Governance Committee on 12 February 2024.

We have established our programme that will need to be completed, which we will adapt if required when guidance is released by the NAO, to ensure that together we can meet the backstop date of 13 December 2024 .

Depending on when we receive all of the required information that has been requested from management, we aim to have our procedures completed and provide our report by the end of November in order for you to review it, provide to us your final signed letter of representation and subsequent events confirmation, and then publish your accounts with the audit report by the December deadline.

You need to have arrangements in place for an Audit Committee meeting or delegated authority to approve the statement of accounts when we have completed the required work. In discussion with management, we have agreed the appropriate way forward for Southampton City Council is for the accounts to be presented to this September committee requesting delegated approval to the Chairman and s151 officer.



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02 2023/24 Audit Progress



2023/24 Audit Progress

Status of the audit

Our audit work in respect of the Council opinion is in progress. We started the audit in June and have experienced a number of setbacks and delays. The most significant of these have been;

- Difficulties in being able to arrive at populations of transactions that underpin the financial statements in order to perform our sample testing. This has involved significant support and time from officers due to the complexity of the underlying systems; and
- Delays in receiving evidence from management in response to our sample testing and the subsequent poor quality of that evidence, mainly due to capacity within the finance and other supporting teams. In part this is impacted by sickness and also affected by changes in personnel and staff leaving the Council.

The impact of this is that the audit has not been completed within the initial agreed timetable and we need to schedule further resources to complete our work. The poor quality of evidence is particularly disappointing given we ran a workshop for the Council on audit evidence and expectations in June.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Annual Report and Accounts which could influence our final audit opinion.

We cannot sign our audit report on the 2023/24 accounts before our disclaimer is issued on the 2022/23 accounts. Subject to the scheduling of additional resources to complete the audit, we anticipate bringing our Audit Results Report for the 2023/24 Audit to your 11 November 2024 Audit Committee meeting, subject to receiving audit evidence of sufficient quality to complete our testing. This will enable us to complete the audit by the Government's intended backstop date for 2023/24 audits of 28 February 2025.

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Scope Update

In our audit planning report presented at the 22 April 2024 Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We are carrying out our audit in accordance with this plan, with the following exceptions:

Additional Risk; The Council has received a provisional agreement for a capitalisation direction as exceptional financial support (EFS) for 2024/25. As this can only be used in 2024/25, there is a risk that the Council may defer 2023/24 general fund expenditure into the next financial year in order to minimise the 2023/24 overspend, and to then access that funding source in 2024/25 to finance the expenditure. The EFS includes amounts for potential equal pay claims.

Within our consideration of the fraud risk presumption within revenue recognition, we have determined that this risk to be for general fund expenditure not the HRA, and to be present within creditors completeness, and the completeness of provisions with specific reference to equal pay claims.

Changes in materiality: We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure in the provision of services, we have updated our overall materiality assessment to £13.86m (Audit Planning Report – £14.0m). This results in updated performance materiality, at 75% of overall materiality, of £10.395m, and an updated threshold for reporting misstatements of £693,000.



2023/24 Audit Progress (cont'd)

Other Reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. Subject to receipt of an updated Statement that includes information in relation to the Head of Internal Audit Annual Report and Opinion, we have no matters to report as a result of this work.

We have received the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts. The Council falls below the £2bn HM Treasury threshold and, therefore, we will need to undertake the reduced procedures. This will be undertaken once we have completed our work on your financial statements.

Control observations

During the audit, we identified the following significant deficiencies in internal control:

▶ During our work over lease commitments, management informed us that the lease data had not been updated for several years. This could lead to significant differences within the lease disclosures and means that the Council is not ready for the implementation of IFRS 16 from 1 April 2024.

In addition during the audit we identified an observation and improvement recommendation in relation to management's financial processes and controls.

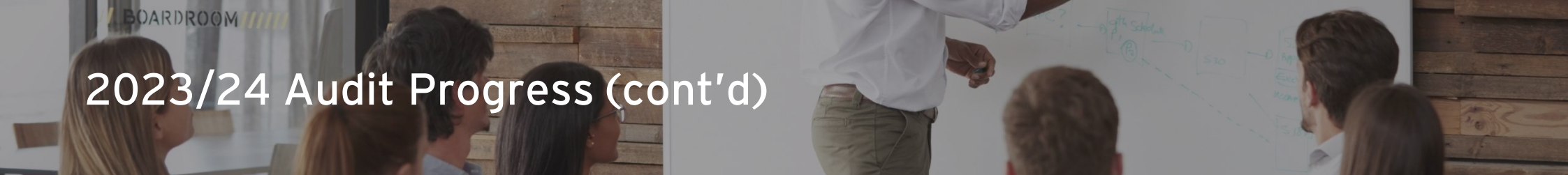
▶ The Council should document their review and challenge the valuations made by the external valuer to evidence that they are satisfied with the valuations and that all factors have been considered and any judgements made are fully supportable within the Code

2023/24 Audit Progress (cont'd)

Areas of audit focus

In our Audit Plan and updated scope on page 6 of this report, we identified a number of key areas of focus for our audit. The following table sets out the current status of our work in relation to these areas

Description	Progress Summary
Misstatement due to fraud or error - Management override	Our testing of journals and key estimates is in progress
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Our testing of capital additions is significantly progressed. However, we have been struggling with insufficient evidence being provided to support our sample items.
Risk of fraud in revenue and expenditure recognition, through inappropriate deferral of expenditure	Our testing is underway in this area.
Valuation of Investment Property and Land & Buildings	Our work in this area is in progress. We have been liaising with the valuers and our internal specialist valuers to progress our work.
Pension Liability Valuation	This work is significantly progressed, subject to review and receipt of the IAS 19 protocol assurances from the Hampshire Pension Fund audit team, and information being requested of the actuary to support our Pensions specialists in their review of the roll-forward calculation.
Restatement of the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes	Our work in this area is complete subject to review.
Accounting for Private Finance Initiative (PFI) Schemes	Our work in this is in progress. Our specialist is currently reviewing the change in the street lighting PFI model.
Going Concern	We have not yet commenced our work in this area as we are waiting for the determination of the EFS.



2023/24 Audit Progress (cont'd)

Value for Money

In our Audit Planning Report Update dated 27 March 2024, we reported that we had completed our value for money (VFM) risk assessment and we had identified a risk of a significant weakness in the Council's arrangements that the Council did not have proper arrangements to secure economy, efficiency and effectiveness on its use of resources during 2023/24.

We have previously raised through our interim value for money report for 2022/23, presented to the 12 February 2024 Governance Committee, that the issues and weaknesses highlighted within that report would remain relevant for 2023/24.

We have received a large amount of information from management to further our work in this area and inform our VFM commentary, but this is unlikely to remove our reporting by exception across a number of VFM criterion as the information requested relates predominantly to processes and activities after the end of the 2023/24 financial year.

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ED None

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